Tian Ge Interactive Holdings Limited
天 鴿 互 動 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1980)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
(in RMB'000)	**2017**	2016	%
Adjusted revenue[1]	**1,004,588**	834,185	20.4%
Continue operations	**915,969**	823,133	11.3%
– Online interactive entertainment service	**852,205**	759,336	12.2%
– Others	**63,764**	63,797	-0.1%
Discontinued operations	**88,619**	11,052	701.8%
Adjusted gross profit[1]	**884,302**	646,087	36.9%
Continuing operations	**806,678**	636,069	26.8%
Discontinued operations	**77,624**	10,018	674.8%
Adjusted gross profit margin[2]	**88.0%**	77.5%	
Net profit	**322,787**	230,709	39.9%
Net profit margin	**32.1%**	27.7%	
Adjusted net profit[3]	**455,732**	280,572	62.4%
Adjusted net profit margin[4]	**45.4%**	33.6%	
Adjusted EPS[5]			
(expressed in RMB per share)			
– basic	**0.352**	0.222	58.6%
– diluted	**0.341**	0.210	62.4%
Adjusted EBITDA[6]	**551,277**	359,555	53.3%
Adjusted EBITDA margin	**54.9%**	43.1%	
Total assets	**2,964,147**	2,907,042	2.0%
Total liabilities	**235,390**	283,070	-16.8%

	Three months ended				
	31 December 2017	30 September 2017	**Quarter-on-quarter Change %**	31 December 2016	**Year-on-Year Change %**
(in RMB'000)					
Adjusted revenue[1]	**231,298**	274,493	-15.7%	248,348	-6.9%
Continuing operations	**231,298**	241,520	-4.2%	237,296	-2.5%
– Online interactive entertainment service	**209,161**	219,979	-4.9%	228,429	-8.4%
– Others	**22,137**	21,541	2.8%	8,867	149.7%
Discontinued operations	**—**	32,973	-100.0%	11,052	-100.0%
Adjusted gross profit[1]	**209,343**	248,011	-15.6%	213,741	-2.1%
Continuing operations	**209,343**	219,059	-4.4%	203,723	2.8%
Discontinued operations	**—**	28,952	-100.0%	10,018	-100.0%
Adjusted gross profit margin[2]	**90.5%**	90.4%		86.1%	
Net profit	**85,611**	87,804	-2.5%	92,541	-7.5%
Net profit margin	**37.0%**	32.0%		37.3%	
Adjusted net profit[3]	**116,410**	127,820	-8.9%	102,218	13.9%
Adjusted net profit margin[4]	**50.3%**	46.6%		41.2%	
Adjusted EPS[5] (expressed in RMB per share)					
– basic	**0.092**	0.101	-8.9%	0.079	16.5%
– diluted	**0.089**	0.098	-9.2%	0.076	17.1%
Adjusted EBITDA[6]	**143,784**	149,184	-3.6%	125,974	14.1%
Adjusted EBITDA Margin	**62.2%**	54.3%		50.7%	

Notes:

(1) Adjusted revenue and adjusted gross profit contain both continuing operations and discontinued operations.

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

(3) Adjusted net profit was derived from the net profit for the year excluding the effect of non-cash share-based compensation expenses, impairment loss arising from acquisitions, loss from disposal of subsidiaries/prepayment on potential investment, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries and amortisation of intangible assets arising from acquisitions.

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

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

(6) Adjusted EBITDA represents adjusted operating profit (contain both continuing operations and discontinued operations), adjusted to exclude share-based compensation expenses, impairment loss arising from acquisitions, loss from disposal of subsidiaries/prepayment on potential investment, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries, amortisation of intangible assets arising from acquisitions, and depreciation and amortization.

ANNUAL RESULTS

The board of directors (the "**Directors**") (the "**Board**") of Tian Ge Interactive Holdings Limited (the "**Company**", "**We**" or "**Tian Ge**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 with comparative figures for the preceding financial year ended 31 December 2016 prepared under International Financial Reporting Standards ("**IFRS**") and audited by PricewaterhouseCoopers, the auditor of the Company. In addition, the annual results have also been reviewed by the audit committee of the Company (the "**Audit Committee**") and this annual results announcement is based on the Group's audited consolidated financial statements for the year ended 31 December 2017 which have been agreed with the auditor of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Overview

In 2017, amidst the heightened competition and tightening regulation, the market concentration in live streaming industry has been intensified, resulting in a relatively stable market landscape. Facing the market competition, Tian Ge has remained steadfast in promoting its strategy of "Interaction + Companion", enhanced user engagement, consolidated the benefits and advantages brought by "Companion Economy" and created unique live streaming content and business model. Over the past year, the Group saw favorable development in both operation targets and financial performance. Going forward, the Board is optimistic about the prospect of the industry and will face challenges with positive attitudes.

Overall Financial Performance

For the year ended 31 December 2017, Tian Ge's adjusted revenue increased by 20.4% year-on-year to RMB1,004.6 million from RMB834.2 million in 2016. Revenue from online interactive entertainment service increased by 12.2% year-on-year to RMB852.2 million from RMB759.3 million in 2016. In the fourth quarter of 2017, adjusted revenue decreased by 15.7% quarter-on-quarter to RMB231.3 million from RMB274.5 million for the three months ended 30 September 2017. Revenue from online interactive entertainment service decreased by 4.9% quarter-on-quarter from RMB220.0 million for the three months ended 30 September 2017. The year-on-year increase was mainly driven by robust growth in our mobile live streaming business. Based on the analysis on cash proceeds received from sales of our virtual currency and game coins, revenue generated from mobile devices represented approximately 58.7% of revenue from our online interactive entertainment service for the year ended 31 December 2017 compared with approximately 46.4% for the year ended 31 December 2016.

For the year ended 31 December 2017, profit attributable to equity holders of the Company was RMB324.1 million which increased by 39.0% year-on-year; net profit was RMB322.8 million which increased by 39.9% year-on-year; adjusted net profit was RMB455.7 million which increased by 62.4% year-on-year; and adjusted EBITDA was RMB551.3 million which increased by 53.3% year-on-year.

In the fourth quarter of 2017, profit attributable to equity holders of the Company was RMB85.8 million which decreased by 6.2% quarter-on-quarter from the three months ended 30 September 2017; net profit was RMB85.6 million which decreased by 2.5% quarter-on-quarter from the three months ended 30 September 2017; adjusted net profit was RMB116.4 million which decreased by 8.9% quarter-on-quarter from the three months ended 30 September 2017; and adjusted EBITDA was RMB143.8 million which decreased by 3.6% quarter-on-quarter from the three months ended 30 September 2017.

Business Highlights

"Mobile + PC" Dual Live Streaming

Driven by the stable growth of China's economy and continuous diversification of household life entertainment, live streaming has gradually become a social lifestyle of the people. According to "The China Statistical Report on Internet Development Report" published by China Internet Network Information Center, the users of live streaming reached 343 million as of June 2017, which accounted for 45.6% of total netizen; the users of reality show live streaming reached 173 million, which accounted for 23.1% of total netizen.

The year of 2017 witnessed a fierce competition in the live streaming industry. As a forerunner in the live streaming market, Tian Ge firmly rose to the challenge with adherence to the "Mobile + PC" Dual Live Streaming strategy and continuously optimized its mobile and PC businesses. During the year, by putting efforts in the marketing and technology improvement of the mobile live streaming applications such as Miao Broadcasting (喵播) and 9158 Live Streaming, we significantly expanded our user base.

To further strengthen the synergy of the Group's products and realizing maximum user traffic, the Group strived to build a mobile live streaming platform focusing on Miao broadcasting so as to promote a long-term sustainable development of the Group by integrating it with camera, short video and social interaction.

As at the year ended 31 December 2017, the Group's business experienced strong momentum as its total registered users reached 378.1 million (31 December 2016: 320.4 million). Monthly active users ("**MAUs**") for the year ended 31 December 2017 increased to 24.0 million from 19.2 million for the corresponding period in 2016.

Financial Technology

During the reporting period, leveraging on the increasing demand on financing and wealth management service from the huge domestic user base, Tian Ge endeavored to pursue suitable investment, merger and acquisition opportunities. In addition, the Group has successfully helped its financial technology ("**Fintech**") platforms optimize users' classification and technological enhancement, and improved its credit evaluation and anti-fraud engine with risk management system and big data system. At this stage, the portfolio companies which the Group has invested in were in a good operational condition, and are expected to become a new growth potential for the Group.

Mobile Games

During the reporting period, the Group has incorporated its games into its mobile live streaming platforms, continuously optimized the interconnection between games and mobile live streaming platform, promoted the synergy among its core businesses and enhanced customer loyalty. The Board believes that the mobile game industry in China remains massive, while Tian Ge will actively work on the research and development of IP games to generate more revenues for the Group. During the reporting period, the Group has explored new revenue sources by placing advertisements of other game companies on its own platform.

International Expansion

The implementation of the national development strategy of "The Belt and Road" boosts our expansion of live streaming platform overseas. By replicating our successful business model abroad, aligning the local culture with local users' habits, the Group has successfully entered into Taiwan and Thailand, and has strategized its expansion into Indonesia, the Philippines and other South East Asia regions, which is beneficial for the Group to speed up internationalization and to expand international market share.

Outlook

At present, China plays a leading role around the globe in the live video broadcasting industry. Goldman Sachs, in their research report, estimated that the market scale of live video streaming will reach USD15 billion in 2020. Looking forward, we will focus on improving our core business, endeavoring to offer comprehensive entertainment and related services in tier 2 to tier 4 cities in China, and intend to explore "beauty economy" business. Utilizing big data insights of user interests and behavior, we aim to provide customized information push service for users to enrich their entertainment experiences.

To enhance synergy with a wide range of industries, Tian Ge will strive to search for deep cooperation with more outstanding enterprises to deepen the video-based social ecosystem. Meanwhile, on 26 January 2018, the Group announced its investment in "Wuta Camera". "Wuta Camera" provides "Beauty + Creative" self-portrait video taking function, attracting users of selfie, beauty broadcasting and cosmetic. Currently, "Wuta Camera" has evoked wild enthusiasm among users and has also occupied the majority of user traffic in the live streaming market. With high development potential, it is expected to create synergy with our live streaming platform.

Looking forward, the Group will continue to consolidate its core strength in real-time social interactive entertainment, strive for sustainable development in the live streaming and other related vertical industries, expand its market share, diversify its business, broaden the income sources in order to generate a higher profit value for our shareholders.

2. Operating Information

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

	Three months ended				
	31 December 2017	31 December 2016	Year-on-year change	30 September 2017	Quarter-on-quarter change
Monthly Active Users *(in'000)* *	**21,964**	21,913	0.2%	22,704	-3.3%
Quarterly Paying Users *(in'000)* *	**1,098**	1,264	-13.1%	1,191	-7.8%
Quarterly Average Revenue Per User *(RMB)* *	**191**	181	5.5%	185	3.2%
Number of Rooms	**70,643**	65,259	8.3%	70,152	0.7%
Number of Hosts	**126,288**	99,909	26.4%	121,519	3.9%

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

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

- For the three months ended 31 December 2017, MAUs of Tian Ge's online interactive entertainment service remained stable as compared to the same period in 2016 and slightly decreased by 3.3% as compared to the three months ended 30 September 2017.

- Our mobile MAUs as at 31 December 2017 represents 64.2% of our total MAUs, while the percentages as at 30 September 2017 and 31 December 2016 were 63.4% and 47.0%, respectively.

- The number of quarterly paying users ("**QPUs**") of the online interactive entertainment service of Tian Ge for the three months ended 31 December 2017 was approximately 1,098,000, decreased by approximately 7.8% and 13.1% as compared to the three months ended 30 September 2017 and 31 December 2016, respectively. This was primarily driven by our stringent execution on precision marketing to clean up certain mobile channels with low user conversion rate.

- Our mobile QPUs as at 31 December 2017 represents 71.0% of our total QPUs, while the percentages as at 30 September 2017 and 31 December 2016 were 70.4% and 63.9%, respectively.

- During the year ended 31 December 2017, the Company continued to further optimize the interconnection of mobile platform and PC platform. In view of this, the quarterly average revenue per user ("**QARPU**") for Tian Ge's online interactive entertainment service for the three months ended 31 December 2017 was RMB191, representing an increase of approximately 3.2% from the three months ended 30 September 2017 and representing an increase of 5.5% from the three months ended 31 December 2016.

- Number of virtual rooms for Tian Ge's online interactive entertainment service remained stable as compared to the three months ended 30 September 2017 and increased by 8.3% as compared to the three months ended 31 December 2016. Number of hosts for Tian Ge's online interactive entertainment service increased by 3.9% as compared to the three months ended 30 September 2017 and representing an increase of 26.4% as compared to the three months ended 31 December 2016.

- The total number of registered users* of Tian Ge as at 31 December 2017 was 378.1 million, as compared to 320.4 million as at 31 December 2016.

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

The following table sets forth certain annual operating statistics relating to the Company's online interactive entertainment service for the periods presented below:

	Year ended		
	31 December 2017	31 December 2016	Year-on-Year Change
Monthly Active Users *(in'000)*	**24,036**	19,235	25.0%
Quarterly Paying Users *(in'000)*	**1,237**	1,078	14.7%
Quarterly Average Revenue Per User *(RMB)*	**172**	176	-2.3%

3. Financial Information

Revenue

Revenue generated from online interactive entertainment service was RMB852.2 million for the year ended 31 December 2017, mainly including revenue from live social video platforms and online games which increased by 12.2% as compared to the corresponding period in 2016. Revenue generated from online interactive entertainment service was RMB209.2 million for the three months ended 31 December 2017 which decreased by 4.9% as compared to the three months ended 30 September 2017. The year-on-year increase was primarily due to the growth from live social video platforms especially from live streaming and partially offset by the decrease of games revenue which was caused by the expiration of life cycle of certain online games. The quarter-on-quarter decrease was caused by the decrease of QPUs while partially offset by the increase of QARPU.

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

Cost of Revenue

Cost of revenue experienced a decrease of 41.6% year-on-year to RMB109.3 million for the year ended 31 December 2017 from RMB187.1 million for the corresponding period in 2016, and remained stable quarter-on-quarter for the three months ended 31 December 2017 compared with the three months ended 30 September 2017. The year-on-year decrease was primarily due to the decreased commission charged by game developers relating to the operation of our mobile games and decreased costs of other value-added services and employee costs.

The gross profit margin for the year ended 31 December 2017 was 88.1%, compared with 77.3% for the corresponding period in 2016. The gross profit margin for the three months ended 31 December 2017 was 90.5%, compared with 90.7% for the three months ended 30 September 2017.

Selling and Marketing Expenses

Selling and marketing expenses increased by 10.5% year-on-year to RMB219.5 million for the year ended 31 December 2017 from RMB198.7 million for the corresponding period in 2016, and decreased by 8.6% quarter-on-quarter for the three months ended 31 December 2017 from the three months ended 30 September 2017. The year-on-year increase was mainly caused by the increase of employee costs mainly relating to share-based compensation expense and the increase in promotion expenses. The quarter-on-quarter decrease was mainly due to the decrease of employee costs and the decrease in promotion expenses.

Administrative Expenses

Administrative expenses increased by 15.0% year-on-year to RMB139.1 million for the year ended 31 December 2017 from RMB121.0 million for the corresponding period in 2016, and decreased by 45.1% quarter-on-quarter to RMB27.0 million for the three months ended 31 December 2017 from the three months ended 30 September 2017. The year-on-year increase was primarily due to the increase of impairment loss and increase of employee costs mainly relating to share-based compensation expense. The quarter-on-quarter decrease was primarily due to the decrease of impairment loss and decrease of employee costs.

Research and Development Expenses

Research and development expenses increased by 18.2% year-on-year to RMB102.2 million for the year ended 31 December 2017 from RMB86.5 million for the corresponding period in 2016, and remained stable quarter-on-quarter for the three months ended 31 December 2017 compared with the three months ended 30 September 2017. The year-on-year increase was primarily due to the increase of employee costs.

Finance Income/(Costs), Net

Finance income, net was RMB5.7 million for the year ended 31 December 2017 while finance costs, net was RMB1.4 million for the corresponding period in 2016, which was mainly due to the increased foreign exchange gains. Finance income, net was RMB1.8 million for the three months ended 31 December 2017 which decreased by 27.2% from the three months ended 30 September 2017. The quarter-on-quarter decrease was mainly due to the decrease of foreign exchange gains and interest income on cash and cash equivalents.

Other Gains/(loss), Net

Other gains, net decreased by 26.7% year-on-year to RMB43.2 million for the year ended 31 December 2017 from RMB58.9 million for the corresponding period in 2016. The year-on-year decrease was primarily due to the loss derived from the disposal of subsidiaries/prepayment on potential investment, increase of impairment loss and partially offset by increase of the interest income on loans and the decrease of foreign exchange losses on non-financing activity. Other loss, net was RMB0.7 million for the three months ended 31 December 2017, while the other gains, net was RMB14.9 million for the three months ended 30 September 2017, which was primarily due to the loss derived from the disposal of subsidiaries/prepayment on potential investment and the increase of impairment loss.

Income tax expense

Income tax expense increased by 50.0% year-on-year to RMB78.4 million for the year ended 31 December 2017 from RMB52.2 million for the corresponding period in 2016, and increased by 3.6% quarter-on-quarter to RMB19.5 million for the three months ended 31 December 2017 from RMB18.8 million for the three months ended 30 September 2017. For the year ended 31 December 2017, the income tax expense consists of (a) current corporate income tax of RMB75.9 million (2016: RMB52.5 million), (b) reversal of temporary differences of RMB2.5 million (2016: reversal of temporary differences of RMB5.2 million) and (c) withholding tax of RMB5.0 million (2016: RMB5.0 million). The increase of current year income tax expenses reflected an increase in profit before income tax.

Gain attributable to shareholders of the Company

We recorded gain attributable to shareholders of the Company for the year ended 31 December 2017 of RMB324.1 million compared with gain attributable to equity holders of the Company of RMB233.2 million for the corresponding period of 2016, and gain attributable to equity holders of the Company for the three months ended 31 December 2017 was RMB85.8 million which decreased by 6.2% from RMB91.5 million for the three months ended 30 September 2017. The year-on-year increase was mainly due to the increase of gross profit and partially offset by the increase of operating expenses and income tax expenses. The quarter-on-quarter decrease was mainly due to the decrease of gross profit, increases of other loss, net, share of loss of investment accounted for using the equity method and income tax expenses, and partially offset by the saving of operating expenses.

Non-IFRS Presentation

To supplement our consolidated financial statements which are presented in accordance with IFRS, the adjusted financial information including discontinued operations is used as additional disclosure to enable investors and others to understand and evaluate the Company's consolidated results of operations as a whole and in a consistence way as presented in previous quarters when the subsidiaries were yet to be disposed.

ADJUSTED CONDENSED CONSOLIDATED STATEMENT OF PROFIT

(FOR THE YEAR ENDED 31 DECEMBER 2017)

	Continued operations		Discontinued operations		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**915,969**	823,133	**88,619**	11,052	**1,004,588**	834,185
Cost of revenue	**(109,291)**	(187,064)	**(10,995)**	(1,034)	**(120,286)**	(188,098)
Gross profit	**806,678**	636,069	**77,624**	10,018	**884,302**	646,087
Selling and marketing expenses	**(219,503)**	(198,689)	**(53,737)**	(7,686)	**(273,240)**	(206,375)
Administrative expenses	**(139,116)**	(120,966)	**(11,901)**	(1,306)	**(151,017)**	(122,272)
Research and development expenses	**(102,243)**	(86,524)	**(4,255)**	(628)	**(106,498)**	(87,152)
Other gains, net	**43,150**	58,899	**307**	461	**43,457**	59,360
Operating profit	**388,966**	288,789	**8,038**	859	**397,004**	289,648
Finance income	**5,732**	1,126	**65**	24	**5,797**	1,150
Finance costs	**–**	(2,498)	**–**	–	–	(2,498)
Finance income/(costs), net	**5,732**	(1,372)	**65**	24	**5,797**	(1,348)
Share of loss of investment accounted for using the equity method	**(504)**	(5,110)	**–**	–	**(504)**	(5,110)
Profit before income tax	**394,194**	282,307	**8,103**	883	**402,297**	283,190
Income tax expense	**(78,375)**	(52,245)	**(1,135)**	(236)	**(79,510)**	(52,481)
Profit for the period	**315,819**	230,062	**6,968**	647	**322,787**	230,709
Profit/(loss) attributable to:						
– Shareholders of the Company	**319,650**	232,801	**4,449**	412	**324,099**	233,213
– Non-controlling interests	**(3,831)**	(2,739)	**2,519**	235	**(1,312)**	(2,504)
	315,819	230,062	**6,968**	647	**322,787**	230,709

Non-IFRS Measures

To supplement our consolidated financial statements which are presented in accordance with IFRS, adjusted net profit and adjusted EBITDA are used as additional financial indicators. These financial indicators are presented because they are used by our management team 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 our management team and in comparing financial results across accounting periods and to those of our peer companies.

The following table reconciles our adjusted operating profit to our adjusted EBITDA for the years presented:

	Year ended		**Three months ended**		
	31 December 2017	31 December 2016	**31 December 2017**	30 September 2017	31 December 2016
(in RMB'000)					
Adjusted operating profit*	**397,004**	289,648	**108,237**	103,513	111,463
Share-based compensation expense	**64,128**	31,790	**7,911**	9,337	4,504
Impairment loss arising from acquisitions	**39,237**	6,997	**7,500**	22,033	—
Loss from disposal of subsidiaries/prepayment on potential investment	**20,078**	—	**14,205**	5,873	—
Impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries	**—**	4,835	**—**	—	3,162
Amortization of intangible assets arising from acquisition	**9,502**	6,241	**1,183**	2,773	2,011
Depreciation and amortization expense	**21,328**	20,044	**4,748**	5,655	4,834
Adjusted EBITDA	**551,277**	359,555	**143,784**	149,184	125,974

* Adjusted operating profit contains both continuing operations and discontinued operations.

The following table sets forth the reconciliations of the Group's net profit to adjusted net profit for the year presented below:

	Year ended		Three months ended		
	31 December 2017	31 December 2016	**31 December 2017**	30 September 2017	31 December 2016
(in RMB'000)					
Net profit	**322,787**	230,709	**85,611**	87,804	92,541
Share-based compensation expense	**64,128**	31,790	**7,911**	9,337	4,504
Impairment loss arising from acquisitions	**39,237**	6,997	**7,500**	22,033	—
Loss from disposal of subsidiaries/ prepayment on potential investment	**20,078**	—	**14,205**	5,873	—
Impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries	**—**	4,835	**—**	—	3,162
Amortization of intangible assets arising from acquisition	**9,502**	6,241	**1,183**	2,773	2,011
Adjusted net profit	**455,732**	280,572	**116,410**	127,820	102,218

Adjusted EBITDA

Adjusted EBITDA increased by 53.3% year-on-year from the corresponding period in 2016 and decreased by 3.6% quarter-on-quarter for the three months ended 31 December 2017 from the three months ended 30 September 2017. Adjusted EBITDA margin was 54.9% for the year ended 31 December 2017 and 43.1% for the corresponding period in 2016. Adjusted EBITDA margin was 62.2% for the three months ended 31 December 2017, compared to 54.3% for the three months ended 30 September 2017 and 50.7% for the corresponding period in 2016. Adjusted EBITDA represents adjusted operating profit adjusted to exclude non-cash share-based compensation expenses, impairment loss arising from acquisitions, loss from disposal of subsidiaries/repayment on potential investment, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries, amortisation of intangible assets arising from acquisitions and depreciation and amortisation.

Adjusted Net Profit and Earnings Per Share

Adjusted net profit increased by 62.4% year-on-year from RMB280.6 million for the corresponding period in 2016 and decreased by 8.9% quarter-on-quarter for the three months ended 31 December 2017 from the three months ended 30 September 2017. Adjusted diluted earnings per share is RMB0.341 for the year ended 31 December 2017, compared with RMB0.210 for the year ended 31 December 2016.

Adjusted net profit is not defined under IFRS, and eliminates the effect of non-cash share based compensation expenses, impairment loss arising from acquisitions, loss from disposal of subsidiaries/prepayment on potential investment, impairment of capital surplus attributable to non-controlling interests of newly established subsidiaries and amortisation of intangible assets arising from acquisitions.

Adjusted diluted earnings per share is not defined under IFRS. The denominator for computing the adjusted diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume share options granted to employees under 2008 Global Share Option Plan and Post-IPO Share Option Scheme, restricted share units granted to employees under Pre-IPO Restricted Share Unit Scheme and Post-IPO Restricted Share Unit Scheme have been fully vested and exercised with no impact on the adjusted earnings. The numerator of adjusted diluted EPS is adjusted net profit attributable to the equity holders of the Company.

4. 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, and as at 31 December 2017 and 31 December 2016, it amounted to RMB273.7 million and RMB290.3 million, respectively. All cash at bank balances as of these dates were demand deposits and term deposits with initial terms of less than three months. The Company had term deposits with initial term of over three months of RMB199.4 million and RMB776.0 million as at 31 December 2017 and 31 December 2016, respectively.

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

The Company had current available-for-sale financial assets of RMB915.1 million and RMB611.0 million as at 31 December 2017 and 31 December 2016, respectively. Current available-for-sale financial assets typically consist of RMB-denominated principal protected wealth management products with floating interest rates ranging from 2.7% to 5.2% per annum with maturity periods within one year or with an ongoing term offered by large state-owned and commercial banks in China.

The Group had current financial assets at fair value through profit or loss of RMB15.5 million and nil as at 31 December 2017 and 31 December 2016, respectively. Financial assets at fair value through profit or loss mainly represent investments in structure notes issued by reputable international financial institutions in Hong Kong which provide a potential return based on the underlyings on the final valuation date and at relevant times during the term, and were classified as financial assets at fair value through profit or loss upon initial recognition.

Bank Loans and Other Borrowings

As at 31 December 2017 and 31 December 2016, the Company had no bank loans and other borrowings outstanding.

Gearing Ratio

The gearing ratio as at 31 December 2017 and 31 December 2016 were 0%.

Capital Expenditures

For the year ended 31 December 2017, the Group's capital expenditures were approximately RMB45.8 million, mainly including approximately RMB16.4 million and RMB14.9 million relating to purchase of a real estate property located in the United States and a real estate property located in Hong Kong, respectively, the tax of approximately RMB3.0 million relating to our office building located in Hangzhou and approximately RMB9.7 million relating to purchase of server, equipment and motor vehicles.

Significant Investment

The Company did not make any significant investments for the year ended 31 December 2017.

Mergers and Acquisitions

On 23 May 2017, the Company, through a subsidiary of a PRC operating entity of the Group (the "**Investor**"), as one of the series B investors of Beijing Mijing Hefeng Technology Company Limited (北京密境和風科技有限公司) (the "**Beijing Mijing**"), entered into an investment agreement with controlling shareholders and the series A investors of Beijing Mijing, pursuant to which, the Investor has conditionally agreed to subscribe certain equity interest of Beijing Mijing by way of capital injection for a cash consideration of RMB100 million.

In January 2017, the Group signed a series of agreements to invest in Shanghai Jieta Financial Information Services Company Limited (上海截塔金融信息服務有限公司) ("**Shanghai Jieta**") for a cash consideration of RMB11.7 million, an internet loan company specializing in the operation of microcredit through its website and mobile application. In June 2017, the Group signed a series of agreements to further acquire the equity interest of Shanghai Jieta for a cash consideration of RMB113.1 million. As at the date of this announcement, the transactions are yet to be consummated.

Except as disclosed above, the Group did not make any other material mergers or acquisitions during the year ended 31 December 2017.

Charges on Assets

As at 31 December 2017, the Group did not have any asset charges.

Contingent Liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

Foreign Exchange Risk

Most of our subsidiaries' functional currencies are RMB, as the majority of the revenues of these companies are derived from our operations in mainland China. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to foreign currency denominated financial assets as at 31 December 2017. We do not hedge against any fluctuation in foreign currency.

5. Corporate Information

Staff

The Company had 647 full time employees as at 31 December 2017. Tian Ge's success depends on its ability to attract, retain and motivate qualified personnel. The Company adopts high standards in recruitment with strict procedures to ensure the quality of new hiring and use various methods for recruitment, including campus recruitment, online recruitment, internal recommendation and recruiting through hunting firms or agents, to satisfy the demand for different types of talents. Moreover, the Company provides a robust training program for new employees in order to effectively equip them with the skill sets and work ethics which are necessary to succeed at Tian Ge.

Relevant staff cost was RMB197.4 million for the year ended 31 December 2017, while our staff cost was RMB165.8 million for the year ended 31 December 2016. The Group's remuneration policies are formulated according to the duty, experience, ability and performance of individual employees and are reviewed annually. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes and discretionary incentive.

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

Share Option Schemes

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

The share-based compensation expenses for the year ended 31 December 2017 were RMB64.1 million, as compared to RMB31.8 million for the year ended 31 December 2016.

As at 31 December 2017, options representing a total of 36,617,137 shares were outstanding. If all such options under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 2.80% as at 31 December 2017. However, as the options are exercisable over a 10-year period from the date of grant, any such dilutive effect on earnings per share may be staggered over several years.

As of 31 December 2017, the total number of shares underlying the Pre-IPO RSU Scheme and Post-IPO RSU Scheme represented approximately 4.52% of the total ordinary shares of the Company.

On 5 April 2017, the Company granted restricted share units in respect of a total of 10,668,254 ordinary shares of the Company of US$0.0001 each to the grantees under the Post-IPO RSU Scheme, which represented approximately 0.84% of the total ordinary shares of the Company as at 31 December 2017.

On 18 April 2017, the Company granted restricted share units in respect of a total of 2,957,546 ordinary shares of the Company of US$0.0001 each to the grantees under the Post-IPO RSU Scheme, which represented approximately 0.23% of the total ordinary shares of the Company as at 31 December 2017.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Continuing operations			
Revenue	3	**915,969**	823,133
Cost of revenue	11	**(109,291)**	(187,064)
Gross profit		**806,678**	636,069
Selling and marketing expenses	11	**(219,503)**	(198,689)
Administrative expenses	11	**(139,116)**	(120,966)
Research and development expenses	11	**(102,243)**	(86,524)
Other gains, net	12	**43,150**	58,899
Operating profit		**388,966**	288,789
Finance income	13	**5,732**	1,126
Finance costs	13	**—**	(2,498)
Finance income/(costs), net		**5,732**	(1,372)
Share of loss of investment accounted for using the equity method		**(504)**	(5,110)
Profit before income tax		**394,194**	282,307
Income tax expense	14	**(78,375)**	(52,245)
Profit from continuing operations		**315,819**	230,062
Profit from discontinued operation	4	**6,968**	647
Profit for the year		**322,787**	230,709
Other comprehensive income:			
Items that may be reclassified to profit and loss			
Changes in value of available-for-sale financial assets		**98,215**	26,677
Currency translation differences		**(58,415)**	63,680
Total comprehensive income for the year		**362,587**	321,066

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Profit/(Loss) attributable to:			
– Shareholders of the Company		**324,099**	233,213
– Non-controlling interests		**(1,312)**	(2,504)
		322,787	230,709
Profit attributable to Shareholders of the Company arising from:			
– Continuing operations		**319,650**	232,801
– Discontinued operations		**4,449**	412
		324,099	233,213
Total comprehensive income/(loss) attributable to:			
– Shareholders of the Company		**363,933**	323,133
– Non-controlling interests		**(1,346)**	(2,067)
		362,587	321,066
Total comprehensive income attributable to Shareholders of the Company arising from:			
– Continuing operations		**359,484**	322,721
– Discontinued operations		**4,449**	412
		363,933	323,133
Earnings per share from continuing and discontinued operations attributable to owners of the Company (expressed in RMB per share):			
Basic earnings per share			
– From continuing operations	15	**0.248**	0.183
– From discontinued operations	15	**0.003**	—
		0.251	0.183
Diluted earnings per share			
– From continuing operations	15	**0.240**	0.175
– From discontinued operations	15	**0.003**	—
		0.243	0.175

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property and equipment		**193,444**	182,908
Investment property		**45,319**	27,748
Intangible assets		**97,200**	251,003
Investment accounted for using the equity method	5	**131,760**	55,497
Deferred income tax assets		**35,968**	74,583
Available-for-sale financial assets	7	**631,820**	304,478
Prepayments and other receivables		**203,948**	191,601
Financial assets at fair value through profit or loss		**19,590**	—
		1,359,049	1,087,818
Current assets			
Inventories		**—**	1,082
Trade receivables	6	**28,862**	25,834
Prepayments and other receivables		**172,544**	115,090
Available-for-sale financial assets	7	**915,074**	610,954
Financial assets at fair value through profit or loss		**15,518**	—
Term deposits with initial term over 3 months		**199,448**	775,958
Cash and cash equivalents		**273,652**	290,306
		1,605,098	1,819,224
Total assets		**2,964,147**	2,907,042

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Equity			
Equity attributable to Shareholders of the Company			
Share capital	8	**787**	804
Shares held for restricted share units schemes	8	**(6)**	(7)
Share premium	8	**1,952,499**	2,250,388
Other reserves		**569,960**	426,403
Retained earnings/(Accumulated deficits)		**193,935**	(89,257)
		2,717,175	2,588,331
Non-controlling interests		**11,582**	35,641
Total equity		**2,728,757**	2,623,972
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**5,130**	14,948
Other non-current liabilities		**1,261**	1,304
		6,391	16,252
Current liabilities			
Trade payables	10	**11,054**	29,435
Other payables and accruals		**63,310**	61,407
Income tax liabilities		**107,305**	117,088
Customer advance and deferred revenue		**42,610**	53,888
Provisions for other liabilities and charges		**4,720**	5,000
		228,999	266,818
Total liabilities		**235,390**	283,070
Total equity and liabilities		**2,964,147**	2,907,042

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to Shareholders of the Company						Non-controlling interests	Total Equity
		Share capital	Share premium	Shares held for restricted share units Scheme	Other reserves	Accumulated deficits	Total		
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016		797	2,305,423	(14)	273,425	(292,919)	2,286,712	21,960	2,308,672
Comprehensive income/(loss)									
Profit/(loss) for the year		—	—	—	—	233,213	233,213	(2,504)	230,709
Other comprehensive income									
Currency translation differences		—	—	—	63,243	—	63,243	437	63,680
Changes in value of available-for-sale financial assets		—	—	—	26,677	—	26,677	—	26,677
Total other comprehensive income, net of tax		—	—	—	89,920	—	89,920	437	90,357
Total comprehensive income/(loss)		—	—	—	89,920	233,213	323,133	(2,067)	321,066
Transactions with Shareholders in their capacity as owners									
Employees share option scheme and restricted share units schemes:									
– value of employee services		—	—	—	31,790	—	31,790	—	31,790
– proceeds from shares issued	8	6	10,606	—	—	—	10,612	—	10,612
– vest and transfer of restricted share units	8	—	(8)	8	—	—	—	—	—
Issuance of shares held for Post-IPO restricted share units Scheme	8	1	—	(1)	—	—	—	—	—
Non-controlling interests arising from acquisition and establishment of subsidiaries		—	—	—	—	—	—	16,655	16,655
Disposal of a subsidiary		—	—	—	—	—	—	(3,920)	(3,920)
Non-controlling interests arising from step-acquisition of a subsidiary		—	—	—	—	—	—	4,730	4,730
Dividends relating to 2015 paid in June 2016	8	—	(65,633)	—	—	—	(65,633)	—	(65,633)
Profit appropriations to statutory reserves		—	—	—	29,551	(29,551)	—	—	—
Changes in ownership interests in subsidiaries without change of control		—	—	—	1,717	—	1,717	(1,717)	—
Total transactions with Shareholders in their capacity as owners		7	(55,035)	7	63,058	(29,551)	(21,514)	15,748	(5,766)
Balance at 31 December 2016		804	2,250,388	(7)	426,403	(89,257)	2,588,331	35,641	2,623,972

		Attributable to Shareholders of the Company						Non-controlling interests	Total Equity
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for restricted share units Scheme *RMB'000*	Other reserves *RMB'000*	Retained earnings/ (Accumulated deficits) *RMB'000*	Total *RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017		804	2,250,388	(7)	426,403	(89,257)	2,588,331	35,641	2,623,972
Comprehensive income/(loss)									
Profit/(loss) for the year		—	—	—	—	324,099	324,099	(1,312)	322,787
Other comprehensive income									
Currency translation differences		—	—	—	(58,381)	—	(58,381)	(34)	(58,415)
Changes in value of available-for-sale financial assets		—	—	—	98,215	—	98,215	—	98,215
Total other comprehensive income/(loss), net of tax		—	—	—	39,834	—	39,834	(34)	39,800
Total comprehensive income/(loss)		—	—	—	39,834	324,099	363,933	(1,346)	362,587
Transactions with Shareholders in their capacity as owners									
Employees share option scheme and restricted share units schemes:		—	—	—	—	—	—	—	—
– value of employee services		—	—	—	64,128	—	64,128	—	64,128
– proceeds from shares issued	8	6	6,386	—	—	—	6,392	—	6,392
– vest and transfer of restricted share units	8	—	(9)	9	—	—	—	—	—
Repurchase and cancellation of ordinary shares		(31)	(224,675)	—	—	—	(224,706)	—	(224,706)
Issuance of shares held for Post-IPO restricted share units Scheme	8	8	—	(8)	—	—	—	—	—
Contribution from a non-controlling interest		—	—	—	405	—	405	101	506
Appropriation of dividend to non-controlling interests		—	—	—	—	—	—	(2,023)	(2,023)
Dividends relating to 2016 paid in June 2017	8	—	(79,591)	—	—	—	(79,591)	—	(79,591)
Profit appropriations to statutory reserves		—	—	—	40,907	(40,907)	—	—	—
Disposal of subsidiaries		—	—	—	(1,717)	—	(1,717)	(20,791)	(22,508)
Total transactions with Shareholders in their capacity as owners		(17)	(297,889)	1	103,723	(40,907)	(235,089)	(22,713)	(257,802)
Balance at 31 December 2017		787	1,952,499	(6)	569,960	193,935	2,717,175	11,582	2,728,757

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net cash generated from operating activities	**410,997**	360,786
Net cash used in investing activities	**(122,882)**	(419,419)
Net cash generated from/(used in) financing activities	**(297,893)**	114,043
Net increase/(decrease) in cash and cash equivalents	**(9,778)**	55,410
Cash and cash equivalents at beginning of year	**290,306**	232,848
Exchange gain/(loss) on cash and cash equivalents	**(6,876)**	2,048
Cash and cash equivalents at end of year	**273,652**	290,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(FOR THE YEAR ENDED 31 DECEMBER 2017)

1. General Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

These consolidated financial statements of the Group have been approved for issue by the Board of Directors (the "**Board**") on 29 March 2018.

2. Basis of preparation

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

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policies and disclosure

(a) New amendments and interpretation adopted by the Group in 2017

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and
- Disclosure of changes in liabilities arising from financing activities – Amendments to IFRS 7.
- Disclosure of interest in other entities – Amendments to IFRS 12.

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

(b) New standards and amendments issued but are not yet effective for the financial year beginning on 1 January 2018, and have not been early adopted by the Group

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

– IFRS 9 Financial Instruments

– IFRS 15 Revenue from Contracts with Customers

– IFRS 16 Leases

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

3. Segment reporting

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

(a) Description of segments and principal activities

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company that make strategic decisions. The CODM considers the business primarily from product perspective.

The Group has following reportable segments for the year ended 31 December 2016:

– Online interactive entertainment service;

– Game licensing;

– Others.

Game licensing segment of the Group mainly licensed its self-developed games and its own platforms for an agreed period. The segment was disposed as at 30 September 2017 and is reported in the current period as a discontinued operation. Therefore, for the year ended 31 December 2017, the Group had two reportable segments including online interactive entertainment service and others.

Online interactive entertainment service of the Group mainly comprises provision of live social video platforms and provision of online games. Other segment of the Group mainly comprise provision of advertising, ECommerce transactions and other services.

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

There were no material inter-segment sales during the years ended 31 December 2017 and 2016. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated statement of comprehensive income.

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

(b) Segment revenue and gross profit

The segment information provided to the CODM for the reportable segments for the years ended 31 December 2017 and 2016 is as follows:

	Year Ended 31 December 2017		
	Online interactive entertainment service	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Revenue	**852,205**	**63,764**	**915,969**
Gross profit	**768,421**	**38,257**	**806,678**
-Depreciation, amortization and impairment charges included in segment cost	**(11,206)**	**(9)**	**(11,215)**
Impairment of goodwill	**(15,766)**	**(9,704)**	**(25,470)**
Operating profit			**388,966**
Finance income			**5,732**
Finance costs			**—**
Shares of profit/(loss) of investments accounted for using the equity method of investments accounted for using the equity	**(2,679)**	**2,175**	**(504)**
Profit before income tax			**394,194**

	Year Ended 31 December 2016		
	Online interactive entertainment service	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Revenue	759,336	63,797	823,133
Gross profit	611,615	24,454	636,069
-Depreciation, amortization and impairment charges included in segment cost	(6,394)	(534)	(6,928)
Impairment of goodwill	—	(6,997)	(6,997)
Operating profit			288,789
Finance income			1,126
Finance costs			(2,498)
Shares of profit/(loss) of investments accounted for using the equity method	(5,373)	263	(5,110)
Profit before income tax			282,307

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Live social video platforms	809,937	643,559
Game operation	42,268	115,777
ECommerce transactions	26,294	33,466
Advertising	30,622	896
Others	6,848	29,435
	915,969	823,133

The Company is domiciled in the Cayman Islands while the Group mainly operates its business in the PRC. For the years ended 31 December 2017 and 2016, the total geographic information on the total revenue is as follows:

	Year Ended 31 December 2017		
	PRC (Excluding Hong Kong)	**Other regions**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue arising from:			
Continuing operations	**894,757**	**21,212**	**915,969**
Discontinued operations	**88,619**	**—**	**88,619**
	983,376	**21,212**	**1,004,588**

	Year Ended 31 December 2016		
	PRC (Excluding Hong Kong)	Other regions	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue arising from:			
Continuing operations	817,382	5,751	823,133
Discontinued operations	11,052	—	11,052
	828,434	5,751	834,185

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

Risk of Concentration

Management currently expects that the Company's operating results will for the foreseeable future, continue to depend on the revenue directly from a relatively small number of distributors. All the revenue derived from any single user of the live social video platform was less than 10% of the Group's total revenue during the years ended 31 December 2017 and 2016.

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC (Excluding Hong Kong)	602,673	653,410
Other regions	68,998	55,347
	671,671	708,757

4. Discontinued operation

(a) Description

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

(b) Financial performance and cash flow information

The financial performance and cash flow information presented for the nine months ended 30 September 2017 and the year ended 31 December 2016.

	Nine Months Ended 30 September 2017 *RMB'000*	Year Ended 31 December 2016 *RMB'000*
Revenue	**88,619**	11,052
Cost of revenue	**(10,995)**	(1,034)
Gross profit from discontinued operations	**77,624**	10,018
Selling and marketing expenses	**(53,737)**	(7,686)
Administrative expenses	**(11,901)**	(1,306)
Research and development expenses	**(4,255)**	(628)
Other gains, net	**307**	461
Operating profit from discontinued operations	**8,038**	859
Finance income	**65**	24
Finance costs	**—**	—
Finance income, net	**65**	24
Profit before income tax	**8,103**	883
Income tax	**(1,135)**	(236)
Profit after income tax of from discontinued operations	**6,968**	647
Profit from discontinued operations attributable to:		
– Owners of the Company	**4,449**	412
– Non-controlling interests	**2,519**	235
	6,968	647
Other comprehensive income from discontinued operations	**—**	—
Net cash inflow/(outflow) from operating activities	**(13,580)**	29,865
Net cash inflow/(outflow) from investing (2017 includes an inflow of RMB31,682 thousand from the disposal of 44% equity interest)	**11,826**	(5,098)
Total cash flows	**(1,754)**	24,767

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

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

5. Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Associates	**118,948**	39,993
Joint ventures	**12,812**	15,504
	131,760	55,497

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Associates	**2,072**	120
Joint ventures	**(2,576)**	(5,230)
	(504)	(5,110)

(a) Interests in associates

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Beginning of the year	**39,993**	33,390
Additions (Notes i, ii)	**76,800**	9,797
Derecognition of Happy Alliance from an associate	**—**	(3,328)
Share of profit of investment accounted for using the equity method	**2,072**	120
Exchange and currency translation difference	**83**	14
End of the year	**118,948**	39,993

(i) In January 2017, the Group completed the acquisition of a 36% equity interests of Wuhan Jiuxin Puhui Financial Information Services Co., Ltd ("**Jiuxin Puhui**") from its shareholders at a cash consideration of RMB46,800 thousand. Jiuxin Puhui primarily engages in the operation of a peer-to-peer ("**P2P**") investment and financing platform in the PRC.

(ii) In November 2017, the Group together with two other third parties and one individual established Hainan Xingxiu Microfinance Co., Ltd. ("Hainan Xingxiu"), which engaged in the operation of small loan lending in the PRC. The Group contributed RMB30,000 thousand and holds a 30% equity interests in Hainan Xingxiu.

(iii) Management has assessed the level of influence that the Group has on certain associates, and determined that it has significant influence even though the shareholding is below 20% because of the board representation or other arrangements. Consequently, these investments have been classified as associates.

(b) Interests in joint ventures

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Beginning of the year	**15,504**	18,688
Additions	**—**	7,451
Adjustments on the capital injection	**—**	(5,000)
Share of loss of investment accounted for using equity method	**(2,576)**	(5,230)
Currency translation difference	**(116)**	(405)
End of the year	**12,812**	15,504

(i) Management has assessed the level of influence that the Group has on these investments, and determined that it has joint control even though the shareholding varies from 27% to 51% because unanimous consent is required from all parties to the agreements for all relevant activities. Consequently, these investments have been classified as joint ventures.

6. Trade receivables

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Third parties	**30,659**	25,385
Less: allowance for impairment of trade receivables	**(1,953)**	—
Third parties, net	**28,706**	25,385
Amount due from related parties	**156**	449
	28,862	25,834

As at 31 December 2017 and 2016, the fair values of trade receivables approximated their carrying amounts.

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
0-90 days	**26,302**	21,444
91-180 days	**2,156**	1,755
181-365 days	**326**	2,175
Over 1 year	**2,031**	460
	30,815	25,834

7. Available-for-sale financial assets

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Included in non-current assets		
Investments in venture capital funds (a)	**298,958**	224,009
Unlisted equity investments (b)	**332,862**	80,469
	631,820	304,478
Included in current assets		
Investment in wealth management products (c)	**915,074**	610,954
	1,546,894	915,432

(a) Investments in venture capital funds

This represented the Group's investments in some venture capital funds as limited partner. Set out below are the movements of the Group's investments in venture capital funds as at 31 December 2017 and 2016:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**224,009**	92,208
Additions	**60,019**	98,747
Repayment	**(15,984)**	—
Fair value gain recognised in consolidated statement of comprehensive income under "other comprehensive income"	**39,048**	26,677
Currency translation difference	**(8,134)**	6,377
At end of the year	**298,958**	224,009

(b) Unlisted equity investments

This represented the Group's investments in unlisted equity interests. The Group acquired certain unlisted equity interests for an aggregate consideration of RMB174,054 thousand during the year ended 31 December 2017, with a shareholding percentage ranging from 0.82% to 27%. These companies are principally engaged in operation of web-based casual games, online broadcasting and P2P investment and financing platform. Set out below are the movements of the Group's unlisted equity investments as at 31 December 2017 and 2016:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**80,469**	7,800
Additions	**174,054**	72,408
Partial disposal from subsidiaries to available-for-sale	**29,873**	—
Fair value gain recognised in consolidated statement of comprehensive income	**59,167**	—
Impairment (i)	**(7,500)**	—
Currency translation difference	**(3,201)**	261
At end of the year	**332,862**	80,469

(i) For the year ended 31 December 2017, an impairment of RMB7,500 thousand was fully provided against the carrying amount of certain available-for-sale financial asset with reference to its assessed fair value.

(c) Investment in wealth management products

The current portion of available-for-sale financial assets represented RMB-denominated principal protected wealth management products with interest rates ranging from 2.7% to 5.2% per annum and maturity period within 1 year or revolving terms. These wealth management products are offered by large state-owned commercial banks in the PRC.

8. Share capital, share premium and shares held for RSU Scheme

	Number of Shares	Share capital		Share premium	Shares held for RSU Scheme
		US$'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	1,299,361,417	129.93	804	2,250,388	(7)
Employees share option scheme and restricted share units schemes:					
– proceeds from shares issued (a)	10,361,818	1.03	6	6,386	—
– vest and transfer of RSUs	—	—	—	(9)	9
Issuance of shares held for RSU Scheme (b)	13,625,800	1.36	8	—	(8)
Repurchase and cancellation of ordinary shares (c)	(50,081,000)	(5.01)	(31)	(224,675)	—
Appropriation of final dividends (Note 16)	—	—	—	(79,591)	—
At 31 December 2017	1,273,268,035	127.31	787	1,952,499	(6)
At 1 January 2016	1,285,538,896	128.55	797	2,305,423	(14)
Employees share option scheme and RSU schemes:					
– proceeds from shares issued (a)	12,773,833	1.28	6	10,606	—
– vest and transfer of RSUs	—	—	—	(8)	8
Issuance of shares held for Post-IPO RSU Scheme (b)	1,048,688	0.10	1	—	(1)
Appropriation of final dividends (Note 16)	—	—	—	(65,633)	—
At 31 December 2016	1,299,361,417	129.93	804	2,250,388	(7)

(a) Employees share option plan: options exercised during the year ended 31 December 2017 resulted in 10,361,818 ordinary shares being issued (year ended 31 December 2016: 12,773,833 ordinary shares), with exercise proceeds of approximately RMB6,392 thousand (year ended 31 December 2016: RMB10,612 thousand). The related weighted average price at the time of exercise was HK$6.05.

(b) In 2017 and 2016, the Company issued 13,625,800 and 1,048,688 ordinary shares respectively to an independent trust nominee for the purpose of granting Post-IPO RSUs to the participants under Post-IPO RSU Scheme. The ordinary shares held for Post-IPO RSU scheme was deducted from shareholders' equity as the directors are of the view that such shares are within the Company's control until the shares are vested unconditionally to the participants and hence are considered as treasury shares in substance.

(c) In February, August, September and October 2017, the Company respectively repurchased 100,000 ordinary shares, 16,185,000 ordinary shares, 29,052,000 ordinary shares and 4,744,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited. The total amount paid to repurchase these ordinary shares was HK$267,203 thousand (approximately RMB224,706 thousand).

All the repurchased shares had been cancelled and deducted from the share capital and share premium within shareholders' equity.

9. Share-based payments

(a) Share options

Pre-IPO Share Option Scheme

On 9 December 2008, the Board of Directors of the Company approved Pre-IPO Share Option Scheme that provides for granting options to eligible directors and employees (collectively, the "**Grantees**") to acquire ordinary shares of the Company at an exercise price as determined by the Board at the time of grant. Upon the Pre-IPO Share Option Scheme, the Board of Directors authorized and reserved 11,000,000 ordinary shares for the issuance.

The Pre-IPO Share Option Scheme was amended on 21 October 2011 to increase the aggregate number of ordinary shares available for issuance thereunder by 2,000,000 ordinary shares from 11,000,000 ordinary shares to 13,000,000 ordinary shares.

On 22 May 2014, the Pre-IPO Share Options Scheme was amended to decrease the aggregate number of ordinary share available for issuance thereunder by 4,154,425 ordinary shares from 13,000,000 ordinary shares to 8,845,575 ordinary shares.

On 9 July 2014, the Company consummated its IPO on the Main Board of The Stock Exchange of Hong Kong Limited. Upon the consummation of the IPO, all the then outstanding share options granted under the Pre-IPO Share Options Scheme are adjusted on a one-to-ten basis.

All the share options authorised by the Pre-IPO Share Option Scheme are only exercisable until the occurrence of the earliest of any of the trigger events ("**Trigger Event**"): the Initial Public Offering; a change in control in which the successor entity has equity securities publicly traded on an internationally-recognised stock exchange; and upon such date that the Option may be legally exercised pursuant to Applicable Law, as evidenced by a legal opinion provided to and approved by the Board. All share options granted will be expired after 10 years from the vesting commencement date.

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

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

Post-IPO Share Option Scheme

On 16 June 2014, the Board of Directors of the Company approved Post-IPO Share Option Scheme that provides for granting options to eligible directors and employees (collectively, the "**Grantees**") to acquire ordinary shares of the Company at an exercise price as determined by the Board at the time of grant. The Post-IPO Share Option Scheme will be valid and effective for a period of 10 years, commencing from 9 July 2014.

In respect of Post-IPO Option Scheme, the exercise price shall not be less than the higher of: (i) the closing price of the Shares on the Hong Kong Stock Exchange as stated in the Hong Kong Stock Exchange's daily quotations sheet on the Offer Date; (ii) the average closing price of the Shares on the Hong Kong Stock Exchange as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the Shares. In addition, any Option shall be vested on an Option-holder immediately upon his acceptance of the offer of Options provided that if any vesting schedule and (or) conditions are specified in the offer of the Option, such Option shall only be vested on an Option-holder according to such vesting schedule and (or) upon the fulfillment of the vesting conditions, that is, to continue the employment for a certain period.

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

Movements in the number of Pre-IPO outstanding share options, retroactively reflecting the one-to-ten basis bonus shares, and of Post-IPO outstanding share options, are as follows:

	Average Exercise Price in US$ per Share Option	Number of Pre-IPO Share Options	Average Exercise Price in HK$ per Share Option	Number of Post-IPO Share Options	Total Number of Share Options
At 1 January 2017		44,238,886		3,358,000	47,596,886
Exercised	US$0.0971	(10,285,818)	HK$3.5000	(76,000)	(10,361,818)
Lapsed	US$0.3354	(195,568)	—	—	(195,568)
Forfeited	US$0.3141	(292,363)	HK$3.5000	(130,000)	(422,363)
At 31 December2017		33,465,137		3,152,000	36,617,137
At 1 January 2016		56,847,469		4,000,000	60,847,469
Exercised	US$0.1086	(12,131,833)	HK$3.5000	(642,000)	(12,773,833)
Forfeited	US$0.3321	(476,750)	HK$3.5000	—	(476,750)
At 31 December 2016		44,238,886		3,358,000	47,596,886

During the year ended 31 December 2017 and 2016, no share option was granted.

As at 31 December 2017, 35,503,389 share options (2016: 43,179,869) were outstanding and exercisable. Options exercised in 2017 resulted in 10,361,818 shares (2016: 12,773,833 shares) being issued, and the weighted average price of the shares at the time these options were exercised was HK$6.0546 (2016: HK$5.4874) per share.

Details of the expiry dates, exercise prices and the respective numbers of Pre-IPO share options, retroactively reflecting the one-to-ten basis bonus shares, and of Post-IPO share options, which remained outstanding as at 31 December 2017 and 2016, are as follows:

			Number of share options	
Trench	**Expiry Date**	**Exercise price**	**31 December 2017**	31 December 2016
Trench I Option	10 years commencing from the date of grant of options since 14 January 2009	US$0.01	**8,693,000**	11,811,000
Trench II Option	10 years commencing from the date of grant of options since 23 July 2009	US$0.021	**783,000**	2,160,000
		US$0.03	**3,445,540**	3,848,540
Trench III Option	10 years commencing from the date of grant of options since 17 June 2010	US$0.06	**1,638,380**	2,231,380
Trench IV Option	10 years commencing from the date of grant of options since 6 September2010	US$0.035	**5,601,000**	6,601,000
		US$0.06	**190,000**	300,000
Trench V Option	10 years commencing from the date of grant of options since 20 December 2010	US$0.03	**12,000**	35,000
		US$0.06	**2,582,050**	2,859,050
Trench VI Option	10 years commencing from the date of grant of options since 26 December 2011	US$0.06	**1,540,000**	1,600,000
		US$0.1	**687,000**	1,184,000
		US$0.12	**753,110**	908,439

			Number of share options	
Trench	**Expiry Date**	**Exercise price**	**31 December 2017**	31 December 2016
Trench VII Option	10 years commencing from the date of grant of options since 14 October 2012	US$0.15	**1,352,795**	1,931,100
Trench VIII Option	10 years commencing from the date of grant of options since 14 September 2013	US$0.2	**610,000**	1,045,570
Trench IX Option	10 years commencing from the date of grant of options since 22 May 2014	US$0.35	**5,577,262**	7,723,807
Trench X Option	8 years and 10 months commencing from the date of grant of options since 22 September 2015	HK$3.5	**3,152,000**	3,358,000
			36,617,137	47,596,886
Weighted average remaining contractual life of options outstanding at the end of the period			**6.58 years**	5.68 years

(b) Restricted share units

Pre-IPO RSU Scheme

On 22 May 2014, the Board of Directors of the Company approved the Pre-IPO RSU Scheme. Pursuant to the resolution, 7,280,000 Pre-IPO RSUs, which includes the 4,280,000 Pre-IPO RSUs granted to partially replace the options granted under the Pre-IPO Share Option Scheme, have been granted to 17 grantees, including two executive Directors, three senior management members, one connected person of the Group and 11 other employees.

The Pre-IPO RSU Scheme will be valid and effective for a period of 10 years, commencing from 22 May 2014.

On 9 July 2014, the Company consummated its IPO on the Main Board of The Stock Exchange of Hong Kong Limited. Upon the consummation of the IPO, all the then outstanding RSUs granted under the Pre-IPO RSU Scheme are adjusted on a one-to-ten basis.

Post-IPO RSU Scheme

On 16 June 2014, the Board of Directors of the Company approved the Post-IPO RSU Scheme. The Post-IPO RSU Scheme will be valid and effective for a period of 10 years commencing from 9 July 2014.

Movements in the number of outstanding Pre-IPO RSUs, retroactively reflecting the one-to-ten basis bonus shares, and of outstanding Post-IPO RSUs, are as follows:

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

	Number of shares held for Pre-IPO RSU Scheme	Number of shares held for Post-IPO RSU Scheme	Total
At 1 January 2016	19,071,875	2,823,500	21,895,375
Granted	—	1,048,688	1,048,688
Vested and transferred	(8,479,170)	(3,203,850)	(11,683,020)
Forfeited	—	(90,000)	(90,000)
At 31 December 2016	10,592,705	578,338	11,171,043
Shares vested but not transferred to the grantees as at 31 December 2016			—

During the year ended 31 December 2017, total 5,782,375 (2016: 22,638,309) of the above granted RSUs were exercised.

(c) Expenses arising from share-based payment transactions

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

	2017	2016
	RMB'000	*RMB'000*
Options issued under share option schemes	**1,235**	4,762
Restricted share units granted under RSUs schemes	**62,893**	27,028
	64,128	31,790

(d) Fair value of share options and RSUs

Before the Company consummated its IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the directors have used the discounted cash flow method to determine the fair value of the underlying equity of the Company and adopted equity allocation method to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the directors with best estimates.

Upon the consummation of the IPO, the fair value of the underlying ordinary shares was calculated based on the market price of the Company's shares at the respective grant date.

Fair value of share options

The Directors used Binominal pricing model to determine the fair value of the share option granted, which is to be expensed over the vesting period.

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

Fair value of RSUs

The fair value of RSUs was calculated based on the fair value of underlying ordinary shares as at the grant date.

(e) Expected retention rate of grantees

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of vesting periods of the shares options (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses charged to the statement of comprehensive income. As at 31 December 2017, the Expected Retention Rate was assessed to be 100% (2016: 100%).

(f) Shares held for RSU Scheme

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

On 9 July 2014, upon the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company's ordinary shareholders received nine bonus shares for every registered ordinary share that they already held. As a result, the 7,280,000 ordinary shares of the Company underlying the RSUs were adjusted to 72,800,000 ordinary shares on a one-to-ten basis.

As of 31 December 2017, 10,086,499 ordinary shares were held by the RSU Nominee for the benefit of the grantees pursuant to the Post-IPO RSU Scheme.

The above shares held for Pre-IPO RSU Scheme and Post-IPO RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity as the directors are of the view that such shares are within the Company's control until the shares are vested unconditionally to the participants and hence are considered as treasury shares in substance.

10. Trade payables

Trade payables were mainly due to promotion and advertising expenses, commission charges by platforms and game developers, and bandwidth and server custody fees.

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Third parties	**11,054**	27,435
Related parties	**—**	2,000
	11,054	29,435

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
0-90 days	**7,810**	16,555
91-180 days	**1,842**	6,095
181-365 days	**1,280**	4,749
Over 1 year	**122**	2,036
	11,054	29,435

11. Expenses by nature

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Employee benefit expenses (including share-based compensation expenses)	**197,420**	165,830
Promotion and advertising expenses (a)	**142,035**	132,847
Commission charges by platforms and game developers	**35,224**	94,876
Bandwidth and server custody fees	**30,051**	29,524
Impairment of goodwill	**25,470**	6,997
Amortisation and impairment charges of intangible assets	**22,472**	10,999
Cost of inventories	**22,968**	31,090
Travelling and entertainment expenses	**19,787**	18,392
Depreciation and impairment charges of property and equipment	**13,953**	14,840
Game development costs	**10,260**	13,037
Auditors' remuneration		
– Audit services	**8,283**	6,021
– Non-audit services	**2**	—
Operating lease rentals	**4,682**	6,945
Provision of trade receivables, prepayments and other receivables impairment	**3,975**	21,860
(Resverse of write-down)/write down of inventories to net realizable value	**(1,372)**	365
Others	**34,943**	39,620
Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses	**570,153**	593,243

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

12. Other gains, net

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest on financial assets held as investments (a)	**36,949**	39,870
Government grants (b)		
– Technology award (i)	**9,977**	11,216
– Tax related subsidies (ii)	**7,491**	8,036
– Scientific project fund (iii)	**4,300**	1,638
Interest income on loans to third parties and loans to employees	**7,751**	2,877
Net gain from revaluation of investment property	**3,758**	2,667
Gains/(loss) on disposal of property and equipment, net	**482**	(289)
Loss on disposal of prepayment on potential investment	**(15,004)**	—
Impairment loss of available-for-sale financial assets	**(7,500)**	—
Gain/(loss) on disposal of subsidiaries and remeasurement of retained interests	**(5,074)**	408
Foreign exchange losses on non-financing activity	**(287)**	(14,379)
Financial assets at fair value through profit or loss		
– Fair value loss	**(166)**	—
Gain on remeasuring existing interest in Happy Alliance on acquisition	**—**	4,351
Others	**473**	2,504
	43,150	58,899

(a) This mainly represented the interest income gained from the Group's investment in term deposits with initial term over 3 months and available-for-sale financial assets included in current assets. Interest income earned from financial assets that are held for cash management purposes is presented as finance income, see note 13 below.

(b) For the years ended 31 December 2017 and 2016, government grants primarily consisted of:

(i) Technology award, amounting to RMB9,977 thousand (2016: RMB11,216 thousand) was granted by the local government authorities in Hangzhou, Jinhua and Chengdu to reward the Group's achievement and support the Group's development in information service industries;

(ii) Tax related subsidies, amounting to RMB7,491 thousand (2016: RMB8,036 thousand) were granted by local government authorities in Hangzhou and Jinhua to incentivise the Group's business growth;

(iii) Scientific project fund, amounting to RMB4,300 thousand (2016: RMB1,638 thousand) was granted by local government authorities in Hangzhou and Jinhua to fund the Group's qualified technology research projects.

13. Finance income/(costs), net

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income:		
– Interest income on cash and cash equivalents	**2,584**	1,078
– Exchange gain on financing activities	**3,148**	—
– Others	**—**	48
	5,732	1,126
Finance costs:		
– Exchange loss on financing activities	**—**	(2,498)
	—	(2,498)
Finance income/(costs), net	**5,732**	(1,372)

14. Tax expense

(a) Income tax expense

The income tax expense of the Group for the years ended 31 December 2017 and 2016 are analysed as follows:

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax:		
– Enterprise income tax	**75,914**	52,485
– PRC withholding tax	**5,000**	5,000
Deferred income tax		
– Increase in deferred tax assets	**10**	(4,138)
– Decrease in deferred tax liabilities	**(2,549)**	(1,102)
Income tax expense	**78,375**	52,245

(i) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands, and accordingly is exempted from Cayman Islands income tax.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided for as there was business operation that is subject to Hong Kong profits tax for all the years presented. It has been provided for at the rate of 16.5% on the estimated assessable profits for the years ended 31 December 2017 and 2016.

(iii) PRC enterprise income tax ("**EIT**")

For all the years presented, the Group's subsidiaries and the PRC Operating Entities are subject to enterprise income tax ("**EIT**") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law ("**EIT Law**"). Pursuant to the EIT Law, the Group's subsidiaries and the PRC Operating Entities are generally subject to EIT at the statutory rate of 25%.

Hangzhou Tiange and Zhejiang Tiange qualified as "New High-tech Enterprise" under the EIT Law in 2017. Star Power qualified as "New High-tech Enterprise" under the EIT Law in 2017. Accordingly, they were entitled to a preferential EIT rate of 15% for a three-year period since the qualification day. The applicable EIT rate of these entities was 15% in 2017.

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

The following table sets out applicable EIT rate of Group's subsidiaries and the PRC Operating Entities in the PRC for the year ended 31 December 2017:

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

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("**Super Deduction**"). The additional deduction of 50% of qualified research and development expenses can only be claimed directly in the annual EIT filing and subject to the approval from the relevant tax authorities. Hangzhou Tiange, Zhejiang Tiange, Star Power and Tianyue have claimed such Super Deduction for all the years presented and recognised the additional tax deduction upon approval.

(iv) PRC withholding tax ("**WHT**")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax rate. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

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

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to losses of the consolidated entities as follows:

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit from continuing operations before income tax expense	**394,194**	282,307
Tax calculated at a tax rate of 25%	**98,549**	70,577
Tax effects of:		
Income not subject to tax	**—**	(1,088)
Different tax jurisdiction	**4,637**	2,999
Preferential income tax benefits applicable to subsidiaries in China	**(54,387)**	(36,613)
Withholding tax of appropriation of dividend (a)	**5,000**	5,000
Super deduction for research and development expenses	**(2,338)**	(2,647)
Tax losses for which no deferred tax assets was recognized	**11,739**	329
Expenses not deducted for income tax purposes	**15,175**	13,688
Income tax expense	**78,375**	52,245

(a) Pursuant to the resolutions of the board meeting of Star Power in December 2017, the management plans to declare the dividend of RMB20,000 thousand from the profit of Star Power for the year ended 31 December 2017 to Week8 Holdings (HK) Limited, which were subject to a 10% withholding tax rate at a total amount of RMB2,000 thousand. The remaining undistributed profits of the year ended 31 December 2017 are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future. As of 31 December 2017, the withholding tax of RMB2,000 thousand on the earnings of Star Power for year ended 31 December 2017 was recognised.

As of 31 December 2016, the management declared the dividend of RMB60,000 thousand from the profit of Hangzhou Tiange for the year ended 31 December 2016 to Week8 Holdings (HK) Limited. Pursuant to the approval from the State Administration of Taxation (the 'SAT') in 2014, the relevant withholding tax of RMB3,000 thousand of dividend distributed by Hangzhou Tiange was accrued as of 31 December 2016. In February 2018, the dividend was paid to Week8 Holdings (HK) Limited and the relevant withholding tax of RMB6,000 thouand was paid to tax bureau as Week8 Holdings (HK) Limited didn't meet conditions or requirements stated in the Circular on the Non-residence Enterprise's Tax Treaty Under Double Taxation Agreement (Guoshui No. 124, 2009) issued by the SAT any more. Thus, a further withholding tax of RMB3,000 thousand of the dividend was recognized in the year ended 31 December 2017.

(b) Value-added tax ("VAT")

The operation of the Group in the PRC primarily applies VAT as follows:

Category	Tax Rate	Basis of Levies
VAT	6%	Revenue from operation of live social video platforms and games
	6%	Other revenue
	3%	Disposal of property and equipment

15. Earnings per share

(a) Basic earnings per share

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

	Year Ended 31 December	
	2017	2016
Profit attributable to shareholders of the Company (RMB'000)	**319,650**	232,801
Profit from discontinued operations attributable to shareholders of the Company (RMB'000)	**4,449**	412
	324,099	233,213
Weighted average number of ordinary shares in issue (thousand shares)	**1,291,326**	1,277,589
Basic earnings per share (in RMB/share)		
From continuing operations	**0.248**	0.183
From discontinued operations	**0.003**	—
	0.251	0.183

(b) Diluted earnings per share

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

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

	Year Ended 31 December	
	2017	2016
Profit attributable to shareholders of the Company (RMB'000)	**319,650**	232,801
Profit from discontinued operations attributable to shareholders of the Company (RMB'000)	**4,449**	412
	324,099	233,213
Weighted average number of ordinary shares in issue (thousand shares)	**1,291,326**	1,277,589
Adjustments for share based compensation – share options (thousand shares)	**34,550**	42,580
Adjustments for share based compensation – RSUs (thousand shares)	**7,801**	11,936
Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares)	**1,333,677**	1,332,105
Diluted earnings per share (in RMB/share)		
From continuing operations	**0.240**	0.175
From discontinued operations	**0.003**	—
	0.243	0.175

16. Dividends

	Year Ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Dividends paid by the Company	**79,591**	65,633

The dividends paid in 2017 and 2016 were RMB79,591 thousand (HK$0.07 per share) and RMB65,633 thousand (HK$0.06 per share) respectively.

A final dividend in respect of the year ended 31 December 2017 of HK$0.07 per share, net of the Company's share premium account, was proposed pursuant to a resolution passed by the Board on 29 March 2018 and is subject to the approval of the shareholders at the annual general meeting on 7 June 2018. Such dividend was not recognised as a liability at year end.

USE OF PROCEEDS FROM GLOBAL OFFERING

The net proceeds from the global offering (after the exercise of the over-allotment option and after deducting the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the global offering) amounted to approximately HK$1,725.0 million (equivalent to approximately RMB1,376.0 million). As at 31 December 2017, all of the net proceeds from the global offering had been used in investing in potential acquisitions, expanding our marketing and promotion activities, developing our mobile applications and enhancing our research and development efforts. We have utilized the net proceeds from the IPO for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" contained in the prospectus of the Company dated 25 June 2014.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of corporate governance. During the year ended 31 December 2017, 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 chief executive officer and has been a Director of our Board since 28 July 2008. He was designated to our Board as an executive Director on 11 March 2014. Mr. Fu is the founder of our Group and has served as the chief executive officer of all our wholly foreign-owned enterprises and PRC operating entities since their respective incorporations. 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-caliber 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 TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set forth in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2017, the Company has repurchased a total of 50,081,000 ordinary shares listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with an aggregate amount of HK$267,203,329.87. As at the date of this announcement, all repurchased shares were cancelled. Details of shares repurchased during the year ended 31 December 2017 are set out as follows:

Month of repurchases	Number of Shares repurchased on the Stock Exchange	Price paid per Share		Aggregate consideration paid (HKD)
		Highest (HKD)	Lowest (HKD)	
February 2017	100,000	4.54	4.5	451,300
August 2017	16,185,000	5.42	5.09	84,962,629.60
September 2017	29,052,000	5.88	5.15	154,672,830.50
October 2017	4,744,000	5.85	5.54	27,116,569.77

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

FINAL DIVIDEND

The Board has proposed a final dividend of HK$0.07 per share for the year ended 31 December 2017 (2016: HK$0.07 per share). Subject to the approval at the forthcoming annual general meeting of the Company to be held on 7 June 2018 (the "**AGM**"), the final dividend will be payable on 27 June 2018 to the shareholders of the Company whose names appear on the register of members of the Company on 14 June 2018.

CLOSURE OF REGISTER OF MEMBERS

For determining the right to attend and vote at the AGM, the register of members of the Company will be closed from 4 June 2018 to 7 June 2018 (both day inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 1 June 2018.

For determining the entitlement to the proposed final dividend, the register of members of the Company will also be closed from 13 June 2018 to 14 June 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to receive the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 12 June 2018.

AUDIT COMMITTEE

The Audit Committee had, together with the Board and external auditor of the Company, PricewaterhouseCoopers, reviewed the accounting standards and practices adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2017.

PUBLICATION OF ANNUAL REPORT

Pursuant to the requirements of the Listing Rules regarding the reporting period, the 2017 annual report of the Company will set out all information disclosed in the annual results announcement for the year ended 31 December 2017 and will be despatched to the shareholders of the Compnay and uploaded on the websites of the Company (http://www.tiange.com) and the Stock Exchange (http://www.hkexnews.hk) in due course.

By order of the Board
Tian Ge Interactive Holdings Limited
Fu Zhengjun
Chairman and Chief Executive Officer

Hong Kong, 29 March 2018

As of the date of this announcement, the executive Directors are Mr. Fu Zhengjun and Mr. Mai Shi'en; the non-executive Directors are Mr. Mao Chengyu and Ms. Cao Fei; and the independent non-executive Directors are Ms. Yu Bin, Mr. Wu Chak Man and Mr. Chan Wing Yuen Hubert.