

CONTENTS

Page

| | |
|----|---|
| 2 | Company Overview |
| 3 | Corporate Information |
| 5 | Financial Highlights |
| 7 | Chairman's Statement |
| 10 | Management Discussion and Analysis |
| 23 | Corporate Governance/Other information |
| 33 | Glossary |
| 34 | Independent Auditor's Report |
| 35 | Condensed Consolidated Statement of Comprehensive Income |
| 37 | Condensed Consolidated Balance Sheet |
| 39 | Condensed Consolidated Statement of Changes in Equity |
| 41 | Condensed Consolidated Statement of Cash Flow |
| 42 | Notes to the Condensed Consolidated Financial Information |

COMPANY OVERVIEW

ABOUT TIAN GE

Tian Ge Interactive Holdings Limited (the “**Company**”, “**We**” or “**Tian Ge**”) was founded in Hangzhou, China in 2008 with its shares listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing**”) on July 9, 2014 (the “**Listing Date**”). In March 2015, Tian Ge was included in Hang Seng Composite Index Series including: HSCI, Hang Seng Composite Industry Index – Information Technology, and SmallCap Index.

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

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Mao Chengyu
Ms. Cao Fei

Independent non-executive Directors

Ms. Yu Bin
Mr. Yang Wenbin
Mr. Chan Wing Yuen Hubert

JOINT COMPANY SECRETARIES

Mr. Chen Shi
Ms. Ng Sau Mei

AUTHORISED REPRESENTATIVES

Mr. Fu Zhengjun
Ms. Ng Sau Mei

AUDIT COMMITTEE

Ms. Yu Bin (*Chairman*)
Mr. Yang Wenbin
Mr. Chan Wing Yuen Hubert

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

HEADQUARTERS

Room 322
East Tower Building 1
No. 17-1 Chuxin Road
Gongshu District
Hangzhou, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG SHARE REGISTRAR

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

CORPORATE INFORMATION

LEGAL ADVISERS

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

AUDITOR

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

STOCK CODE

1980

COMPANY'S WEBSITE

www.tiange.com

PRINCIPAL BANKERS

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

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

FINANCIAL HIGHLIGHTS

The board of directors (the “Directors”) (the “Board”) of the Company hereby announces the unaudited consolidated results of the Group for the six months ended June 30, 2019 (the “Reporting Period”). These interim results have been reviewed by the PricewaterhouseCoopers, the auditor of the Company, and the audit committee of the Company (the “Audit Committee”).

| <i>(in RMB'000)</i> | Unaudited Six months ended | | Year-on-Year ⁽¹⁾ Change |
|---|-------------------------------|------------------|---------------------------------------|
| | June 30, 2019 | June 30, 2018 | |
| Revenue | 280,151 | 389,657 | -28.1% |
| – Online interactive entertainment service | 232,301 | 358,168 | -35.1% |
| – Advertising services | 37,911 | 23,357 | 62.3% |
| – Others | 9,939 | 8,132 | 22.2% |
| Gross Profit | 253,430 | 357,251 | -29.1% |
| Gross Profit Margin | 90.5% | 91.7% | |
| Net Profit | 47,598 | 272,573 | -82.5% |
| Net Profit Margin | 17.0% | 70.0% | |
| Earnings per share (expressed in RMB per share) | | | |
| – basic | 0.036 | 0.216 | -83.3% |
| – diluted | 0.036 | 0.210 | -82.9% |
| Adjusted Net Profit ⁽²⁾ | 30,978 | 163,056 | -81.0% |
| Adjusted Net Profit Margin ⁽²⁾ | 11.1% | 41.8% | |
| Adjusted Net Profit (excluding one-off withholding tax effect) ⁽³⁾ | 120,978 | 163,056 | -25.8% |
| Adjusted Net Profit Margin (excluding one-off withholding tax effect) ⁽³⁾ | 43.2% | 41.8% | |
| Adjusted EBITDA ⁽⁴⁾ | 165,570 | 210,926 | -21.5% |
| Adjusted EBITDA Margin | 59.1% | 54.1% | |

FINANCIAL HIGHLIGHTS

| | Unaudited | | | June 30, 2018 | Year-on- Year ⁽¹⁾ Change |
|--|--------------------|-------------------|----------------------------------|------------------|---|
| | Three months ended | | | | |
| (in RMB' 000) | June 30, 2019 | March 31, 2019 | Quarter-on- Quarter Change | | |
| Revenue | 143,364 | 136,787 | 4.8% | 196,476 | -27.0% |
| – Online interactive entertainment service | 114,815 | 117,486 | -2.3% | 177,233 | -35.2% |
| – Advertising services | 20,340 | 17,571 | 15.8% | 12,840 | 58.4% |
| – Others | 8,209 | 1,730 | 374.5% | 6,403 | 28.2% |
| Gross Profit | 129,925 | 123,505 | 5.2% | 179,215 | -27.5% |
| Gross Profit Margin | 90.6% | 90.3% | | 91.2% | |
| Net Profit/(Loss) | -31,469 | 79,067 | -139.8% | 173,280 | -118.2% |
| Net Profit/(Loss) Margin | -22.0% | 57.8% | | 88.2% | |
| Earnings/(Losses) per share (expressed in RMB per share) | | | | | |
| – basic | -0.026 | 0.062 | -141.9% | 0.137 | -119.0% |
| – diluted | -0.026 | 0.061 | -142.6% | 0.133 | -119.5% |
| Adjusted Net Profit/(Loss) ⁽²⁾ | -33,261 | 64,239 | -151.8% | 66,115 | -150.3% |
| Adjusted Net Profit/(Loss) Margin ⁽²⁾ | -23.2% | 47.0% | | 33.7% | |
| Adjusted Net Profit (excluding one-off withholding tax effect) ⁽³⁾ | 56,739 | 64,239 | -11.7% | 66,115 | -14.2% |
| Adjusted Net Profit Margin (excluding one-off withholding tax effect) ⁽³⁾ | 39.6% | 47.0% | | 33.7% | |
| Adjusted EBITDA ⁽⁴⁾ | 83,107 | 82,463 | 0.8% | 96,776 | -14.1% |
| Adjusted EBITDA Margin | 58.0% | 60.3% | | 49.3% | |

Notes:

(1) Year-on-Year change represents a comparison between the current reporting period and the corresponding period of last year.

(2) Adjusted net profit was derived from the unaudited net profit for the period excluding the effect of non-cash share-based compensation expenses, net gains from investee companies, impairment provision, amortization of intangible assets arising from acquisitions and income tax effects of non-IFRS adjustments.

Adjusted net profit margin is calculated by dividing adjusted net profit by revenue.

(3) Adjusted net profit (excluding one-off withholding tax effect) is adjusted net profit excludes the withholding tax expenses accrued related to earnings of previous periods to be remitted from the subsidiaries in mainland China to its holding Company.

Adjusted net profit margin (excluding one-off withholding tax effect) is calculated by dividing adjusted net profit (excluding one-off withholding tax effect) by revenue.

(4) Adjusted EBITDA represents operating profit, adjusted to exclude non-cash share-based compensation expenses, net gains from investee companies, impairment provision, amortization of intangible assets arising from acquisitions and depreciation and amortization.

BUSINESS OVERVIEW AND OUTLOOK

During the first half of 2019, affected by the industry adjustment brought by market competition and government regulation, mobile internet industry in the PRC gradually entered into a stable development period. Facing various challenges in the market, Tian Ge continued to develop its “live streaming + camera” platform for all Internet users, adhere to its core business, optimize and upgrade its platforms, promote overseas market expansion and project implementation, enrich its product portfolio, and further enhance the company's core competitiveness.

On July 5, 2019, we announced the completion of a share transfer transaction between a wholly-owned subsidiary of the Group's PRC operating entity and an associate of Sina Corporation, and the associate of Sina Corporation has become a strategic shareholder of Shanghai Benqu Internet Technology Company Limited (上海本趣網絡科技有限公司) (“Shanghai Benqu”), which develops and operates Wuta Camera application (無他相機) (“Wuta Camera”). It is an important milestone for the Group as we believe the cooperation with Sina Corporation will accelerate the popularization and commercialization of the Group's products and continue to consolidate Tian Ge's profitability in implementing its “live streaming + camera” dual-core strategy.

Looking ahead, the Group will continue to broaden its ecosystem, deeply cultivate the development of the “Beauty Economy” industrial chain, innovate and develop new products of Wuta Camera, and promote the expansion of the Group's overseas business.

Overall Financial Performance

In the first half of 2019, revenue decreased by 28.1% year-on-year to RMB280.2 million. Revenue from online interactive entertainment was RMB232.3 million, representing a decrease of 35.1% from the corresponding period in 2018.

In the first half of 2019, profit attributable to equity holders of the Company decreased by 83.4% year-on-year to RMB45.7 million; net profit decreased by 82.5% year-on-year to RMB47.6 million; adjusted net profit decreased by 81.0% year-on-year to RMB31.0 million; and adjusted EBITDA decreased by 21.5% year-on-year to RMB165.6 million.

The decrease of profit for the first half of 2019 was primarily due to 1) the decrease of other gains, net which was due to the fact that during the second quarter of 2018, the Company recorded increase of fair value gain of RMB250.1 million due to the significant increase in the valuation of one of the unlisted equity securities held by the Company based on re-valuation result, while in the second quarter of 2019, the Company did not record similar significant increase of fair value gain; 2) in order to facilitate its overseas business expansion, the Company decided to remit the additional earnings of no higher than RMB900.0 million from the undistributed profit of previous periods retained by subsidiaries in mainland China to its holding company, which resulted in significant withholding tax expenses of RMB90.0 million accrued during the second quarter of 2019. The remaining undistributed profit of previous periods are expected to be retained by the PRC subsidiaries and no further withholding tax is expected to be provided in the foreseeable future based on the Group's current strategy plan.

CHAIRMAN'S STATEMENT

Business Highlights

"Mobile + PC" Dual Live Streaming

According to China Mobile Internet 2019 Semi-annual Report 《中國移動互聯網2019半年大報告》 issued by QuestMobile, for the second quarter of 2019, the number of monthly active devices for mobile Internet in the PRC reached its peak of 1.14 billion, while the growth rate of users average daily usage time slowed down. The live streaming industry continued to experience industry reshuffling in the first half of 2019 when the dividend of mobile Internet users peaked.

During the Reporting Period, Tian Ge continued to adhere to the development strategy of "Mobile + PC" dual live streaming by concentrating on optimization and development of its core platforms, and continuously diversified live streaming content. For example, we incorporated functions such as "host PK" and "one-to-one audio/video chat" to improve user experience and interactivity, as well as enhance user stickiness.

In addition, Tian Ge actively promoted the integration of live streaming services with camera applications, short videos, social interactive products and overseas products, and brought into play the synergy between products to further tap into the development potential of the Group's live streaming platform and enhance its core competitiveness.

Wuta Camera

As a popular beauty camera and short video application in China, as of June 30, 2019, Wuta Camera's monthly active users were approximately 34.2 million. Since the fourth quarter of 2018, Wuta Camera has been favored by a number of first-tier advertisers, and advertisement revenue recorded stable growth in the Reporting Period. Moreover, Wuta Camera was widely welcomed by overseas users, especially in Southeast Asia, with a steady growth in the number of overseas users.

On July 5, 2019, an associate of Sina Corporation has become a strategic shareholder of Shanghai Benqu. The parties will further explore and implement cross-platform cooperation, facilitate the socialization and popularization of the Group's products, realize the optimization of platform user structure, and further increase the number of users of Wuta Camera. In addition, Wuta Camera will cooperate with the Group's live streaming business to further explore the development potential and value of various businesses. The Group believes that Wuta Camera, endowed with assistance from strategic shareholders, will help to make a breakthrough in the "live streaming + camera" development strategy of Tian Ge.

Overseas Expansion

During the first half of 2019, Tian Ge's strategic expansion into overseas market was progressing smoothly. During the Reporting Period, the Group focused on penetrating markets in Taiwan, Thailand, Vietnam and other regions of Southeast Asia, continuing to promote live streaming, Wuta Camera, short videos, social interaction products, etc. to be more in line with local culture and user habits, and cater for user needs. Increasing Internet penetration rates and economic growth of Southeast Asia are fostering a substantial growth of users in mobile business such as live streaming and beauty camera in these countries. The Group will proactively capitalize the potential of these markets, and replicate the successful domestic business model to overseas markets to boost our international market share. It is expected that the business development in overseas markets can be a new engine of growth in user base and revenue for the Group.

Moreover, the Company's expansion into the aforementioned overseas market provided access and inspiration to the Company to participate in their fast-growing real estate markets. The Company is optimistic about certain real estate markets and is currently exploring opportunities to invest in real estate development projects in certain Southeast Asia regions. However, the Company does not expect any such investment will materially change its core business focus of providing live streaming social interaction services in China and overseas.

Prospect and Future Outlook

On June 6, 2019, the Ministry of Industry and Technology of the People's Republic of China granted 5G licenses to China Telecom, China Mobile, China Unicom and China Broadcasting Network, signifying the PRC's entering of the 5G era. According to China Mobile Internet Industry Development Analysis Report for the First Half of 2019 (《2019年上半年中國移動互聯網行業發展分析報告》), issued by Trustdata, from January to May 2019, within the past 4G era, an average monthly data traffic of an individual was 6.97GB, but the amount is expected to reach 100GB in the 5G era. Rapid development of 5G and other emerging technologies, especially with the issuance of licenses for commercial use, will lay a solid foundation for the promotion of ultra-high-definition video live streaming, and promote the continuous penetration of online live streaming into the public's daily lives, bringing huge room for development to the industry.

Tian Ge, as one of the pioneers in the live streaming industry, will continue to implement the "live streaming + camera" dual-core strategy by content differentiation and innovation to enhance user experience, which will attract more users throughout the Internet and transform more high-quality users with higher spending power. Following the introduction of strategic shareholder to Shanghai Benqu, Wuta Camera will actively explore social functions of its products and promote the integration with live streaming, short video and information products. Embracing new opportunities for development, the Company will continue to explore "Beauty Economy" industry chain, and promote the synergy between Wuta Camera and the Group's core businesses. Meanwhile, based on the continuous expansion of the Group's international businesses, replication of successful domestic business model will be gradually achieved in other Southeast Asia countries.

Going forward, Tian Ge will continue to adapt to the development trends in the industry and leverage on our strengths to promote the integration of live streaming, camera applications, short videos and social interaction products. We will continue to enhance the Group's core competitiveness, expand our international businesses, increase user traffic, improve our monetization capability and create higher profits and values for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

1. OPERATING INFORMATION

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

| | Three months ended | | | | |
|--|--------------------|-------------------|----------------------------------|------------------|------------------------|
| | June 30, 2019 | March 31, 2019 | Quarter-on- quarter Change | June 30, 2018 | Year-on-year Change |
| Total Monthly Active Users (in '000) | 53,828 | 55,921 | -3.7% | 60,609 | -11.2% |
| – Monthly Active Users of Beauty Camera and Video Business (in '000) | 34,203 | 36,290 | -5.8% | 33,898 | 0.9% |
| Quarterly Paying Users (in '000) | 559 | 568 | -1.6% | 1,274 | -56.1% |
| Quarterly Average Revenue Per User (RMB) | 205 | 207 | -1.0% | 139 | 47.5% |
| Number of Rooms | 70,594 | 71,307 | -1.0% | 73,490 | -3.9% |
| Number of Hosts | 118,581 | 119,779 | -1.0% | 132,678 | -10.6% |

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

- For the three months ended June 30, 2019, total number of Monthly Active Users (“MAUs”) for Tian Ge was approximately 53.8 million, representing a decrease of approximately 3.7% from the three months ended March 31, 2019 and representing a decrease of approximately 11.2% from the three months ended June 30, 2018. The decrease was mainly due to decrease in MAUs of Wuta Camera resulted from intensifying competition in beauty camera and video markets.
- Our mobile MAUs as at June 30, 2019 represents 92.5% of our total MAUs, while the percentage as at March 31, 2019 and June 30, 2018 were 90.2% and 85.2%, respectively.
- Benefited from the Company's platform optimization and content enhance policy, our quarterly paying users (“QPUs”) of online interactive entertainment service remained stable, as compared to our QPUs in the last quarter, and reached 559,000.
- Our mobile QPUs as at June 30, 2019 represents 71.5% of our total QPUs, while the percentage as at March 31, 2019 and June 30, 2018 were 78.4% and 81.5%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

- For the three months ended June 30, 2019, the quarterly average revenue per user (“QARPU”) for Tian Ge’s online interactive entertainment service was RMB205, representing an increase of approximately 47.5% from for the three months ended June 30, 2018, and remained stable as compared to QARPU in the last period. The increase was mainly contributed by our streaming and optimizing strategy, where we focused on improving consumption power of our core users.
- Number of virtual rooms for Tian Ge’s online interactive entertainment service slightly decreased by 1.0% as compared to the three months ended March 31, 2019 and decreased by 3.9% from the three months ended June 30, 2018. Number of hosts for Tian Ge’s online interactive entertainment service slightly decreased by 1.0% as compared to the three months ended March 31, 2019 and representing a decrease of 10.6% from the three months ended June 30, 2018.
- The total number of registered users* of Tian Ge as at June 30, 2019 was 420.7 million, as compared to 397.0 million as at June 30, 2018.

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

2. FINANCIAL INFORMATION

Revenue

Revenue generated from online interactive entertainment service was RMB114.8 million for the three months ended June 30, 2019, mainly including revenue from live social video platforms and online games, which remained stable from the three months ended March 31, 2019. Revenue generated from online interactive entertainment service decreased by 35.1% to RMB232.3 million for the six months ended June 30, 2019 from RMB358.2 million for the corresponding period in 2018. The year-on-year decrease was primarily due to the decrease of QPUs and partially offset by the increase of QARPU.

Revenue generated from advertising services for the three months ended June 30, 2019 increased by 15.8% from the three months ended March 31, 2019. Revenue generated from advertising services for the six months ended June 30, 2019 increased by 62.3% from the corresponding period in 2018.

Revenue generated from “Others” mainly includes the revenue from technical supporting services and other services. Revenue generated from “Others” for the three months ended June 30, 2019 increased by 374.5% from the three months ended March 31, 2019. Revenue generated from “Others” for the six months ended June 30, 2019 increased by 22.2% from the corresponding period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Revenue and Gross Profit Margins

Cost of revenue for the three months ended June 30, 2019 remained stable from the three months ended March 31, 2019.

Cost of revenue experienced a decrease of 17.5% for the six months ended June 30, 2019 from the corresponding period in 2018. The year-on-year decrease was primarily due to the decreased commission charged by game developers related to the operation of our mobile games and the decreased bandwidth and server custody fees, and partially offset by the increase of costs related to advertising service.

The gross profit margin for the three months ended June 30, 2019 was 90.6%, compared with 90.3% for the three months ended March 31, 2019. The gross margin for the six months ended June 30, 2019 was 90.5%, compared with 91.7% for the corresponding period in 2018.

Selling and Marketing Expenses

Selling and marketing expenses experienced an increase of 13.2% for the three months ended June 30, 2019 from the three months ended March 31, 2019. The quarter-on-quarter increase was primarily due to the increase of promotion expenses.

Selling and marketing expenses experienced a decrease of 42.6% for the six months ended June 30, 2019 from the corresponding period in 2018. The year-on-year decrease was primarily due to the decrease of promotion expenses and employee costs.

Administrative Expenses

Administrative expenses experienced an increase of 42.2% for the three months ended June 30, 2019 from the three months ended March 31, 2019. The quarter-on-quarter increase was primarily due to the increase of employee costs, professional consultancy fees and the amortization of land use right.

Administrative expenses experienced a decrease of 40.8% for the six months ended June 30, 2019 from the corresponding period in 2018. The year-on-year decrease was primarily due to the decrease of impairment loss and employee costs.

Research and Development Expenses

Research and development expenses experienced an increase of 6.4% for the three months ended June 30, 2019 from the three months ended March 31, 2019. The quarter-on-quarter increase was primarily due to the increase of employee costs.

Research and development expenses experienced a decrease of 26.6% for the six months ended June 30, 2019 from the corresponding period in 2018. The year-on-year decrease was primarily due to the decrease of employee costs and there was a one-time expense of the research cost related to a game which failed to be launched during the corresponding period in 2018.

Other Gains, Net

Other gains, net experienced a decrease of 22.2% for the three months ended June 30, 2019 from the three months ended March 31, 2019. The quarter-on-quarter decrease was primarily due to the increase of expenses in relation to equity transaction of an investee company.

Other gains, net experienced a decrease of 80.3% for the six months ended June 30, 2019 from the corresponding period in 2018. The year-on-year decrease was primarily due to the decrease of net fair value gain of financial assets at fair value through profit or loss.

Income Tax Expenses

Income tax expenses experienced an increase of 719.5% for the three months ended June 30, 2019 from the three months ended March 31, 2019 and experienced an increase of 31.2% for the six months ended June 30, 2019 from the corresponding period in 2018. The significant increase was primarily due to that in order to facilitate its overseas business expansion, the Company decided to remit the earnings from the undistributed profit of previous years retained by subsidiaries in mainland China to its holding company, which resulted in significant withholding tax expenses accrued during the second quarter of 2019 including RMB90.0 million related to earnings of previous periods.

Profit/(Loss) attributable to shareholders of the Company

Loss attributable to shareholders of the Company was RMB32.1 million for the three months ended June 30, 2019 compared with profit attributable to shareholders of the Company of RMB77.8 million for the three months ended March 31, 2019. The quarter-on-quarter decrease was primarily due to the increase of operating expenses, income tax expenses and partially offset by the reversal of impairment losses for financial assets, net.

Profit attributable to shareholders of the Company experienced a decrease of 83.4% for the six months ended June 30, 2019 from the corresponding period in 2018. The year-on-year decrease was primarily due to the decrease of gross profit and other gains, net and partially offset by the saving of operating expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Non-IFRS Measures

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

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2019 remained stable from the three months ended March 31, 2019 and decreased by 21.5% year-on-year for the six months ended June 30, 2019 from the corresponding period in 2018. Adjusted EBITDA margin was 58.0% for the three months ended June 30, 2019, compared to 60.3% for the three months ended March 31, 2019. Adjusted EBITDA margin was 59.1% for the six months ended June 30, 2019, compared to 54.1% for the corresponding period in 2018.

Adjusted EBITDA represents operating profit adjusted to exclude non-cash share-based compensation expenses, net gains from investee companies, impairment provision, amortization of intangible assets arising from acquisitions and depreciation and amortization.

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

| | Unaudited Six months ended | | Unaudited Three months ended | | |
|--|-------------------------------|------------------|---------------------------------|-------------------|------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | March 31, 2019 | June 30, 2018 |
| <i>(in RMB'000)</i> | | | | | |
| Operating Profit | 212,157 | 420,554 | 120,830 | 91,327 | 296,977 |
| Share-based compensation expense | 3,341 | 11,936 | 3,341 | – | 4,766 |
| Net gains from investee companies ^(a) | (65,613) | (254,094) | (49,489) | (16,124) | (231,609) |
| Impairment provision ^(b) | – | 19,447 | – | – | 19,447 |
| Amortization of intangible assets arising from acquisitions | 3,972 | 3,489 | 1,986 | 1,986 | 2,306 |
| Depreciation and amortization expense | 11,713 | 9,594 | 6,439 | 5,274 | 4,889 |
| Adjusted EBITDA | 165,570 | 210,926 | 83,107 | 82,463 | 96,776 |

MANAGEMENT DISCUSSION AND ANALYSIS

Adjusted Net Profit/(Loss)

Adjusted net loss was RMB33.3 million for the three months ended June 30, 2019 compared with adjusted net profit of RMB64.2 million for the three months ended March 31, 2019. Adjusted net profit decreased by 81.0% year-on-year for the six months ended June 30, 2019 from the corresponding period in 2018.

The adjusted net loss was mainly caused by the one-off withholding tax of RMB90.0 million accrued for the undistributed profit of previous periods retained by subsidiaries in mainland China to its holding company. In order to facilitate the investors and others to better understand the Company's operation performance, we exclude such extraordinary item from adjusted net loss. After the adjustment, adjusted net profit (excluding one-off withholding tax effect) decreased by 11.7% quarter-on-quarter for the three months ended June 30, 2019 from the three months ended March 31, 2019 and decreased by 25.8% year-on-year for the six months ended June 30, 2019 from the corresponding period in 2018.

Adjusted net profit is not defined under IFRS, and eliminates the effect of non-cash share-based compensation expenses, net gains from investee companies, impairment provision, amortization of intangible assets arising from acquisitions and income tax effects of non-IFRS adjustments.

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

| | Unaudited Six months ended | | Unaudited Three months ended | | |
|--|-------------------------------|------------------|---------------------------------|-------------------|------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | March 31, 2019 | June 30, 2018 |
| <i>(in RMB' 000)</i> | | | | | |
| Net Profit/(Loss) | 47,598 | 272,573 | (31,469) | 79,067 | 173,280 |
| Share-based compensation expense | 3,341 | 11,936 | 3,341 | — | 4,766 |
| Net gains from investee companies ^(a) | (65,613) | (254,094) | (49,489) | (16,124) | (231,609) |
| Impairment provision ^(b) | 23,251 | 62,678 | 23,251 | — | 62,678 |
| Amortization of intangible assets arising from acquisitions | 3,972 | 3,489 | 1,986 | 1,986 | 2,306 |
| Income tax effects ^(c) | 18,429 | 66,474 | 19,119 | (690) | 54,694 |
| Adjusted Net Profit/(Loss) | 30,978 | 163,056 | (33,261) | 64,239 | 66,115 |

Notes:

- (a) Including net gains on deemed disposals/disposals of investee companies, fair value changes arising from investee companies, other expenses in relation to equity transactions of investee companies and provisions for receivables in relation to investee companies.
- (b) Including impairment provisions for associates, joint ventures and intangible assets arising from acquisitions.
- (c) Income tax effects of non-IFRS adjustments.

MANAGEMENT DISCUSSION AND ANALYSIS

3. LIQUIDITY AND FINANCIAL RESOURCES

Cash and Cash Equivalent, and Term Deposits

Cash and cash equivalents consist of cash at bank and cash on hand, and as at June 30, 2019 and December 31, 2018 amounted to RMB549.4 million and RMB432.6 million, respectively. All cash at bank balances as of these dates were demand deposits and term deposits with initial terms of less than three months. The Group had term deposits with initial terms of over three months of RMB0 million and RMB112.3 million as at June 30, 2019 and December 31, 2018, respectively.

Financial Assets at Fair Value through Profit and Loss

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

Financial assets at fair value through profit and loss increased by 11.8% to RMB1,953.2 million as at June 30, 2019 compared to RMB1,746.4 million as at December 31, 2018. Such increase was mainly attributable to an increase of RMB135.9 million in purchase of wealth management products, an increase of RMB44.1 million in Fund Investments, an increase of RMB25.1 million in Private Investments, an increase of RMB1.3 million in contingent consideration and an increase of RMB0.4 million in structured notes. The following is a breakdown of the five main categories as at the periods specified:

| | As at December 31, 2018 (RMB'000) | As at June 30, 2019 (RMB'000) | Percentage increase |
|--|--|--|------------------------|
| (i) Purchase of wealth management products | 871,871 | 1,007,768 | 15.6% |
| (ii) Private Investments | 471,844 | 496,931 | 5.3% |
| (iii) Fund Investments | 356,352 | 400,448 | 12.4% |
| (iv) Contingent consideration | 36,404 | 37,741 | 3.7% |
| (v) Investments in structured notes | 9,941 | 10,337 | 4.0% |
| Total: | 1,746,412 | 1,953,225 | 11.8% |

(i) *Purchase of Wealth Management Products*

The Group regularly utilizes its idle funds to subscribe for wealth management products through Internet banking from commercial banks in order to earn interest. The fair value of the wealth management products subscribed by the Group increased by 15.6% to RMB1,007.8 million as at June 30, 2019 compared to RMB871.9 million as at December 31, 2018. The fair value of the Group's wealth management products as at December 31, 2018 and as at June 30, 2019 represent about 28% and about 31% of the Group's total assets as at the corresponding dates respectively.

The wealth management products represent RMB-denominated wealth management products with interest rates ranging from 2.60% to 4.85% per annum and maturity period within 1 year or revolving terms. These wealth management products are offered by large state-owned or reputable financial institutions in the PRC. The underlying investments under the wealth management products differ product-by-product, but generally consist of investments in financial assets and financial instruments with high credit ratings and good liquidity in interbank and exchange markets, including but not limited to bonds, asset-backed securities, capital borrowing, reverse repurchase, bank deposits, and investment trust schemes, asset management schemes and other financial assets.

As at December 31, 2018 and June 30, 2019, the Group held 66 and 78 wealth management products respectively.

The Group's investment costs in the wealth management products were RMB859.6 million and RMB991.0 million as at December 31, 2018 and June 30, 2019, respectively.

For the year ended December 31, 2018, the Group recorded an aggregated gain of approximately RMB39.6 million, which includes realized and unrealized gain. The aggregated fair value gain generated by wealth management products subscribed with China Merchant Bank amounted to RMB27.5 million for the year ended December 31, 2018. The carrying amount of the Group's wealth management products subscribed with China Merchant Bank amounted to 8.8% of the Group's total assets as at December 31, 2018. None of the carrying amount of wealth management products the Group subscribed with other commercial banks amounted to over 5% of the Group's total asset as at December 31, 2018. For the six months ended June 30, 2019, the Group's wealth management products recorded an aggregated gain of approximately RMB20.5 million, which includes realized and unrealized gain. The aggregated fair value gain generated by wealth management products subscribed with China Merchant Bank amounted to RMB5.2 million for the six months ended June 30, 2019. The carrying amount of the Group's wealth management products subscribed with China Merchant Bank's amounted to 7.9% of the Group's total assets as at June 30, 2019. None of the carrying amount of wealth management products the Group subscribed with other commercial banks amounted to over 5% of the Group's total assets as at June 30, 2019.

For further details, please refer to the announcements issued by the Company on January 7, 2019, January 25, 2019, February 21, 2019, April 4, 2019, and July 10, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Private Investments

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

| Investment Category | Historical transaction amount (RMB'000) | Percentage of equity interest | Fair value of investments as of June 30, 2019 (RMB'000) | Fair value of investments as of December 31, 2018 (RMB'000) | Percentage increase/(decrease) |
|---|--|-------------------------------|--|--|--------------------------------|
| (i) 2 other entertainment and social live streaming companies ⁽¹⁾ | 100,300 | 1.82% – 19.87% | 100,000 | 100,300 | -0.3% |
| (ii) 6 online/mobile gaming companies, including: – Jinhua Yibo Network Technology Co., Ltd. (“Yibo”) ⁽²⁾ | 124,562 | 3.7966% – 27% | 351,984 | 313,932 | 12.1% |
| (iii) 1 financial technology companies | 11,956 | 8% | 11,956 | 17,663 | -32.3% |
| (iv) 4 corporate/IT services companies | 51,991 | 19% – 20% | 32,991 | 39,949 | -17.4% |

Notes:

- (1) Including investment in Beijing Mijing Hefeng Technology Company Limited. Please refer to the Company’s announcement on May 23, 2017.
- (2) In December 2016, the Group acquired 27% equity interests of Yibo and Yibo International (Macau) Co., Ltd. (collectively, the “Yibo Group”), an independent third party group engaged in operation of web-based and mobile casual games for a total consideration of RMB63.0 million. The investment is measured at fair value. In May 2018, the Group, the founder and the other shareholders of Yibo (collectively, the “Selling Shareholders”) entered into an agreement to dispose 20% equity interest to a third party (the “Buyer”), including 4.5% equity interest in Yibo held by the Group (the “Disposal”). Upon completion of the Disposal in July 2018, the Group still held 22.5% equity interest in Yibo.

The Disposal was executed at a cash consideration of RMB40.5 million and an additional cash consideration of up to RMB253.6 million which may be received from 2019 to 2021. The additional consideration will be received i) in the event that certain pre-determined net profit of 2018, 2019 and 2020 is achieved by Yibo, or ii) in the event that the pre-determined net profit is not achieved, the Buyer exercise the option to ask the founder of Yibo to make the compensation to the Buyer (the “Option”). The settlement date of the additional consideration from 2019 to 2021 was no later than May 15, each year. Yibo did not achieve the 2018 net profit that was pre-determined in the original agreement. In May 2019, the Buyer and Selling Shareholders entered into an agreement to amend the settlement date of the additional consideration in 2019 from May 15, 2019 to December 15, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group received the aforementioned cash consideration of RMB40.5 million and recognised a gain of RMB36.8 million upon completion of the disposal in July 2018. The fair value of the potential amount of all future cash collection was recognised as contingent consideration at the initial estimated amount of RMB44.9 million by calculating the present value of future expected cash flows based on a discount rate and the probability of cash collection, including the probability of exercising the Option by the Buyer. The Group subsequently recognized a fair value loss of RMB8.5 million for the contingent consideration as of December 31, 2018 as the change in possibility of collection of additional consideration. In addition, the Group recognised a fair value gain of approximately RMB186.7 million for the remaining 22.5% of equity interest in Yibo and as at December 31, 2018, the fair value of the Yibo Group was approximately RMB245.1 million.

The fair value of the contingent consideration was increased by RMB1.3 million for the six months ended June 30, 2019. In addition, the Group recognised a fair value gain of RMB2.8 million for the remaining 22.5% of equity interest in Yibo and as at June 30, 2019, the fair value of the Yibo Group was approximately RMB247.9 million.

The carrying amount of investment in Yibo Group as at December 31, 2018 and as at June 30, 2019 accounted for 7.8% and 7.5% of the Group's total consolidated assets as at December 31, 2018 and June 30, 2019, respectively. The Group did not receive any dividend from Yibo during the year ended December 31, 2018 and the six months ended June 30, 2019.

The Group's investment in Yibo Group is in line with its strategy to broaden its live streaming ecosystem, which includes beauty camera, short video and online games. And the Group's subsequent Disposal is to optimize the Group's investment structure and realize/liquidate part of its investments at fair market value.

The underlying Private Investments are independent from each other. Save for its investment in Yibo, there is no single Private Investment whose carrying amount is over 5% of the Group's total assets as of June 30, 2019.

(iii) Fund Investments

As of June 30, 2019, the Group has investment interests in nine venture capital funds, of which its investments in Shanghai Yunqi Wangchuang Asset Management Center (Limited Partnership) (上海雲奇網創資產管理中心(有限合夥)), Yun Qi Partners I GP, Ltd. and Suzhou Yunzhou Venture Capital Investment Center (Limited Partnership) (蘇州雲周創業投資中心(有限合夥)) ("Yunqi Investments") constitute connected transactions to the Company. The principal investment objectives of these three funds include generating capital returns primarily through equity and equity-related investments in companies that operate TMT-related businesses in the PRC, including but not limited to, Internet financing, intelligent hardware, industrial internet and big data. For further details, please refer to the announcements issued by the Company on January 28, 2016, January 7, 2019 and January 22, 2019.

The historical aggregate investment amount in these nine venture capital funds was RMB267.7 million as at June 30, 2019. The fair value of these Fund Investments increased by 12.4% to RMB400.4 million as at June 30, 2019 compared to RMB356.4 million as at December 31, 2018.

Save for the Yunqi Investments, the general partners of the underlying Fund Investments are independent from each other. There is no single Fund Investment whose carrying amount is over 5% of the Company's total assets as of June 30, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

(iv) Contingent Consideration

The fair value of the contingent consideration increased by 3.7% to RMB37.7 million as at June 30, 2019 compared to RMB36.4 million as at December 31, 2018. Please refer to note (2) of “3. LIQUIDITY AND FINANCIAL RESOURCES - (ii) Private Investments” above for further details.

(v) Structured Notes

The fair value of the structured notes invested by the Company increased by 4.0% to RMB10.3 million as at June 30, 2019 compared to RMB9.9 million as at December 31, 2018. The structured notes are issued by a commercial bank in Hong Kong, which provide a potential return linked to the price of certain listed equity security at the predetermined valuation day in future.

Bank Loans and Other Borrowings

As at June 30, 2019 and December 31, 2018, the Company had no bank loans and other borrowings outstanding.

Gearing Ratio

The gearing ratio as at June 30, 2019 and December 31, 2018 were 0%.

Capital Expenditures

For the six months ended June 30, 2019, the Group’s capital expenditures were approximately RMB8.7 million, mainly including approximately RMB5.2 million related to purchase of land use right and approximately RMB2.3 million related to purchase of fixed assets and construction in progress.

Major Investments and Disposals

In January 2019, the Group entered into an agreement to sell 36% of the equity interests in Jinhua Ruian Investments Management Company Limited, a company holding 80% equity interest in Shanghai Benqu as of the date of this report, to Beijing Weimeng Chuangke Investment Management Company Limited, an associate of Sina Corporation, for a consideration of approximately RMB292.6 million. The transaction has been completed on July 5, 2019.

Charges on Assets

As at June 30, 2019, the Group did not have any asset charges.

Contingent Liabilities

As at June 30, 2019, 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 June 30, 2019. We do not hedge against any fluctuation in foreign currency.

4. CORPORATE INFORMATION

Staff

The Company had 553 full time employees as at June 30, 2019. 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 uses 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 RMB65.2 million for the six months ended June 30, 2019, while our staff cost was RMB81.6 million for the six months ended June 30, 2018. 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 Reporting Period.

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 six months ended June 30, 2019 were RMB3.3 million, as compared to RMB11.9 million for the corresponding period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2019, options representing a total of 20,578,875 shares were outstanding. If all such options under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately 1.61% as at June 30, 2019. 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 June 30, 2019, the total number of shares underlying the Pre-IPO RSU Scheme and Post-IPO RSU Scheme represented approximately 1.89% of the total ordinary shares of the Company.

On June 3, 2019, the Company granted restricted share units in respect of a total of 10,000,000 ordinary shares of the Company of US \$0.0001 each to the grantees under the Post-IPO RSU Scheme, which represented approximately 0.80% of the total ordinary shares of the Company as at June 30, 2019.

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 (the “Listing Rules”) as its own code of corporate governance. During the six months ended June 30, 2019, 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 July 28, 2008. He was designated to our Board as an executive Director on March 11, 2014. Mr. Fu is the founder of our Group and has served as the chief executive officer of all our 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-calibre individuals. Our Board currently comprises two executive Directors (including Mr. Fu), two non-executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 six months ended June 30, 2019.

DIVIDEND

The Board did not declare any interim dividend for the six months ended June 30, 2019.

AUDIT COMMITTEE

The Board has established an Audit Committee, which comprises three independent non-executive Directors, namely Ms. Yu Bin (Chairman), Mr. Yang Wenbin and Mr. Chan Wing Yuen Hubert. The primary duties of the Audit Committee are to review and supervise the Company’s financial reporting process and internal controls.

The Audit Committee has reviewed (i) the accounting principles and practices adopted by the Group, and (ii) the auditing, risk management, internal control and financial reporting matters, including the review of the interim results of the Group for the six months ended June 30, 2019.

CORPORATE GOVERNANCE/OTHER INFORMATION

CHANGES TO DIRECTORS' INFORMATION

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended June 30, 2019, the Company has repurchased a total of 14,070,000 shares on the Stock Exchange with an aggregate amount of HK\$39,134,860. As at the date of this report, all shares repurchased during the six months ended 30 June 2019 were cancelled. Details of shares repurchased during the six months ended June 30, 2019 are set out as follows:

| Month of repurchases | Number of Shares purchased on the Stock Exchange | Price paid per Share | | Aggregate consideration paid (HKD) |
|----------------------|---|----------------------|-----------------|---|
| | | Highest (HKD) | Lowest (HKD) | |
| January 2019 | 2,517,000 | 3.16 | 2.85 | 7,603,620.00 |
| March 2019 | 1,836,000 | 3.18 | 2.97 | 5,619,970.00 |
| April 2019 | 7,188,000 | 3.39 | 2.78 | 21,271,150.00 |
| June 2019 | 2,529,000 | 1.91 | 1.75 | 4,640,120.00 |

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended June 30, 2019.

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

As of June 30, 2019, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to Model Code are as follows:

CORPORATE GOVERNANCE/OTHER INFORMATION

Interests in ordinary shares of the Company:

| Name of director | Nature of interests | Number of shares held | Approximate percentage of shareholding as at June 30, 2019 |
|----------------------------|---|-----------------------|--|
| Mr. Fu Zhengjun (“Mr. Fu”) | Founder of a discretionary trust (Note 1) | 306,000,000 | 24.36% |
| | Beneficial owner | 200,000 | 0.02% |

Notes:

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

Interests in underlying shares of the Company:

| Name of director | Position held within our Group | Nature | Number of shares represented by options or RSUs | Exercise price (US\$) | Approximate percentage of shareholding as at June 30, 2019 |
|----------------------------|--|------------------|---|-----------------------|--|
| Mr. Mai Shi'en | Executive director, chief operating officer and acting chief financial officer | RSUs (Note 1) | 4,050,000 | Nil | 0.32% |
| Mr. Mao Chengyu | Non-executive Director | Options (Note 2) | 200,000 | 0.35 | 0.02% |
| Ms. Yu Bin | Independent non-executive Director | Options (Note 2) | 200,000 | 0.35 | 0.02% |
| Mr. Chan Wing Yuen, Hubert | Independent non-executive Director | Options (Note 2) | 200,000 | 0.35 | 0.02% |

Notes:

1. Mr. Mai Shi'en is interested in 405,000 Pre-IPO RSUs granted to him on May 22, 2014 under the Pre-IPO RSU Scheme entitling him to receive 4,050,000 shares.
2. Mr. Mao Chengyu, Ms. Yu Bin and Mr. Chan Wing Yuen, Hubert are each interested in 20,000 Pre-IPO options granted to each of them on May 22, 2014 under the Pre-IPO share Option Scheme entitling each of them to receive 200,000 shares.

CORPORATE GOVERNANCE/OTHER INFORMATION

Save as disclosed above, as at June 30, 2019, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at June 30, 2019, within the knowledge of the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of shareholders | Nature of interests | Number of Shares or securities held | Approximate percentage of interest as at June 30, 2019 |
|---|---|-------------------------------------|--|
| UBS Trustees (BVI) Limited | Trustee (Note 1) | 306,000,000 | 24.36% |
| Three-Body Holdings Ltd | Interest in Controlled Corporation (Note 1) | 306,000,000 | 24.36% |
| Blueberry Worldwide Holdings Limited | Beneficial Owner (Note 1) | 306,000,000 | 24.36% |
| Sina Hong Kong Limited | Beneficial Owner | 300,000,000 | 23.88% |
| Ho Chi Sing | Interest in Controlled Corporation (Note 2) | 110,000,000 | 8.76% |
| Zhou Quan | Interest in Controlled Corporation (Note 2) | 110,000,000 | 8.76% |
| IDG-Accel China Growth Fund GP II Associates Ltd. | Interest in Controlled Corporation (Note 2) | 110,000,000 | 8.76% |
| IDG-Accel China Growth Fund II Associates L.P. | Interest in Controlled Corporation (Note 2) | 102,146,200 | 8.13% |
| IDG-Accel China Growth Fund II L.P. | Beneficial Owner (Note 2) | 102,146,200 | 8.13% |

CORPORATE GOVERNANCE/OTHER INFORMATION

Notes:

- (i) UBS Trustees (BVI) Limited, the trustee of Mr. Fu's Trust, holds the entire issued share capital of Three-Body Holdings Ltd through its nominee, UBS Nominee Limited. Three-Body Holdings Ltd holds the entire issued share capital of Blueberry Worldwide Holdings Limited. Blueberry Worldwide Holdings Limited holds 306,000,000 shares in our Company. Mr. Fu's Trust is a discretionary trust established by Mr. Fu (as the settlor) and the discretionary beneficiaries of which are Mr. Fu and his family members. Accordingly, each of Mr. Fu, UBS Trustees (BVI) Limited, Three-Body Holdings Ltd and Blueberry Worldwide Holdings Limited is deemed to be interested in the 306,000,000 shares held by Blueberry Worldwide Holdings Limited.
- (ii) IDG-Accel China Growth Fund II L.P. is wholly owned by IDG-Accel China Growth Fund II Associates L.P., which is in turn wholly owned by IDG-Accel China Growth Fund GP II Associates Ltd. Accordingly, each of IDG-Accel China Growth Fund II L.P., IDG-Accel China Growth Fund II Associates L.P. and IDG-Accel China Growth Fund GP II Associates Ltd. is deemed to be interested in the 102,146,200 shares held by IDG-Accel China Growth Fund II L.P.. Separately, IDG-Accel China Investors II L.P. is wholly owned by IDG-Accel China Growth Fund GP II Associates Ltd., therefore IDG-Accel China Growth Fund GP II Associates Ltd. is deemed to be interested in the shares held by IDG-Accel Growth Investors II L.P.

Each of Ho Chi Sing and Zhou Quan holds 50% of the issued share capital of IDG-Accel China Growth Fund GP II Associates Ltd., therefore both Ho Chi Sing and Zhou Quan are deemed to be interested in the 110,000,000 shares which IDG-Accel China Growth Fund GP II Associates Ltd. is interested in total.

Save as disclosed above, as at June 30, 2019, the Directors and the chief executive of the Company are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Incentive Schemes" in this report and in note 25 to the condensed consolidated financial statements, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE INCENTIVE SCHEMES

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

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

CORPORATE GOVERNANCE/OTHER INFORMATION

Outstanding Share Options

Pre-IPO Share Option Scheme

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

As at June 30, 2019, options representing a total of 17,726,875 shares (taking into account the 28,381,446 options which have lapsed and options in respect of an aggregate of 67,571,679 shares which have been exercised in accordance with the terms of the Pre-IPO Share Option Scheme) were outstanding. If all the options under the Pre-IPO Share Option Scheme are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 1.39% as at June 30, 2019. However, as the options are exercisable over a 10-year period from the date of grant, any such dilutive effect on earnings per Share may be staggered over several years.

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

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

Post-IPO Share Option Scheme

The maximum number of shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 121,706,700, representing 10% of the total number of shares in issue as at the Listing Date.

During the Reporting Period, no option was exercised and no option was granted, lapsed and cancelled under the Post-IPO Share Option Scheme. As a result, as at June 30, 2019, options representing a total of 2,852,000 shares were outstanding, representing approximately 0.23% of the issued shares of the Company.

CORPORATE GOVERNANCE/OTHER INFORMATION

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

Outstanding RSUs

Pre-IPO RSU Scheme

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

On July 9, 2014, upon the Company's IPO on the Main Board of the Stock Exchange, the Company's ordinary shareholders received 9 bonus shares for every registered ordinary share that they already held. As a result, the 7,280,000 ordinary shares of the Company underlying the RSUs were adjusted to 72,800,000 ordinary shares on a one-to-ten basis. As at the date of this report, the total number of shares underlying the RSUs represents approximately 5.77% of the total number of shares of the Company.

The duration of the Pre-IPO RSU Scheme is 10 years commencing on May 22, 2014 and the remaining life of this scheme is around 4 years and 9 months.

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

During the Reporting Period, RSUs in respect of an aggregate of 129,000 shares have been exercised by grantees under the Pre-IPO RSU Scheme and no RSUs have been granted, cancelled and lapsed. As a result, as at June 30, 2019, 12,113,000 shares have been issued and allotted to Tangguo Limited.

Post-IPO RSU Scheme

As at June 30, 2019, RSUs in respect of a total of 30,893,488 shares pursuant to the Company's Post-IPO RSU Scheme have been granted on April 20, 2015, September 15, 2015, April 1, 2016, April 5, 2017, April 18, 2017 and June 3, 2019.

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

CORPORATE GOVERNANCE/OTHER INFORMATION

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

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

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

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

The RSUs granted on June 3, 2019 will be vested on September 30, 2019 and December 31, 2019 respectively and the number of RSUs granted for the respective vesting date was 5,000,000 respectively. The closing price of the shares immediately before the date of grant was HK\$2.08.

The Company appointed The Core Trust Company Limited (匯聚信託有限公司) as the trustee and Xinshow Limited, a company incorporated in the British Virgin Islands and an independent third party, as the nominee to administer the Post-IPO RSU Scheme. During the Reporting Period, RSUs in respect of an aggregate of 230,391 shares have been exercised by grantees under the Post-IPO RSU Scheme and no RSUs have been lapsed and cancelled, as a result, as the date of this report, 11,565,934 shares have been allotted and issued to Xinshow Limited.

CORPORATE GOVERNANCE/OTHER INFORMATION

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

The following table shows the details of the options and/or the Pre-IPO RSUs granted and outstanding under the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme to, on an individual basis, the Directors, senior management members and other connected person of the Group as at June 30, 2019.

| Name of Grantee | Position Held within Our Group | Nature | Number of Shares Represented by Option or RSUs | Date of Grant | Outstanding | | Exercised during the Reporting Period | Cancelled during the Reporting Period | Lapsed during the Reporting Period | Outstanding as at June 30, 2019 |
|--------------------------------|--|---------|--|---------------|-----------------------|-----------------------|---------------------------------------|---------------------------------------|------------------------------------|---------------------------------|
| | | | | | as at January 1, 2019 | Exercise Price (US\$) | | | | |
| Director of our Company | | | | | | | | | | |
| Mr. Mai Shi'en | Executive Director, chief operating officer and acting chief financial officer | RSUs | 4,050,000 | May 22, 2014 | 4,050,000 | Nil | 0 | 0 | 0 | 4,050,000 |
| Mr. Mao Chengyu | Non-executive Director | Options | 200,000 | May 22, 2014 | 200,000 | 0.35 | 0 | 0 | 0 | 200,000 |
| Ms. Yu Bin | Independent non-executive Director | Options | 200,000 | May 22, 2014 | 200,000 | 0.35 | 0 | 0 | 0 | 200,000 |
| Mr. Chan Wing Yuen, Hubert | Independent non-executive Director | Options | 200,000 | May 22, 2014 | 200,000 | 0.35 | 0 | 0 | 0 | 200,000 |
| Four Directors | | | Options | | | 600,000 | | | | |
| | | | RSUs | | | 4,050,000 | | | | |
| | | | Sub-total | | | 4,650,000 | | | | |

CORPORATE GOVERNANCE/OTHER INFORMATION

The following is a summary table showing further details of the options and/or the Pre-IPO RSUs granted and outstanding under the Pre-IPO Share Option Scheme and the Pre-IPO RSU Scheme to individuals who are neither a Director, chief executive member nor a connected person of the Group as at June 30, 2019.

| Rank/Position Held With Our Group | Nature | Number of Shares Represented by Option or RSUs | | Outstanding | Exercise Price (US\$/HK\$) | Exercised | Cancelled | Lapsed | Outstanding | |
|---|-----------|--|-----------------------------|-----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|---------------------------|-------------------|--|
| | | Date of Grant | as at January 1, 2019 | during the Reporting Period | | during the Reporting Period | during the Reporting Period | as at June 30, 2019 | | |
| 175 other employees, 49 other consultants and 22 ex-employees (note 1) | Options | 0 | January 14, 2009 | 82,000 | US\$0.01 | 82,000 | 0 | 0 | 0 | |
| | | 99,000 | July 23, 2009 | 450,000 | US\$0.021 | 351,000 | 0 | 0 | 99,000 | |
| | | 1,649,540 | July 23, 2009 | 2,161,540 | US\$0.03 | 512,000 | 0 | 0 | 1,649,540 | |
| | | 1,123,380 | June 17, 2010 | 1,223,380 | US\$0.06 | 100,000 | 0 | 0 | 1,123,380 | |
| | | 79,000 | September 6, 2010 | 79,000 | US\$0.06 | 0 | 0 | 0 | 79,000 | |
| | | 5,601,000 | September 6, 2010 | 5,601,000 | US\$0.035 | 0 | 0 | 0 | 5,601,000 | |
| | | 2,399,050 | December 20, 2010 | 2,399,050 | US\$0.06 | 0 | 0 | 0 | 2,399,050 | |
| | | 1,300,000 | December 26, 2011 | 1,300,000 | US\$0.06 | 0 | 0 | 0 | 1,300,000 | |
| | | 20,000 | December 26, 2011 | 374,000 | US\$0.1 | 354,000 | 0 | 0 | 20,000 | |
| | | 566,110 | December 26, 2011 | 572,110 | US\$0.12 | 6,000 | 0 | 0 | 566,110 | |
| | | 962,795 | October 14, 2012 | 962,795 | US\$0.15 | 0 | 0 | 0 | 962,795 | |
| | | 318,000 | September 14, 2013 | 331,000 | US\$0.2 | 13,000 | 0 | 0 | 318,000 | |
| | | 3,009,000 | May 22, 2014 | 3,055,739 | US\$0.35 | 19,500 | 0 | 27,239 | 3,009,000 | |
| | | (note 2) | | | | | | | | |
| | | 2,852,000 | September 22, 2015 | 2,852,000 | HK\$3.50 | 0 | 0 | 0 | 2,852,000 | |
| Options total | | 19,978,875 | | 21,443,614 | - | 1,437,500 | 0 | 27,239 | 19,978,875 | |
| RSUs | 8,063,000 | May 22, 2014 | 8,192,000 | Nil | 129,000 | 0 | 0 | 8,063,000 | | |
| | 466,109 | April 20, 2015 | 499,409 | Nil | 33,300 | 0 | 0 | 466,109 | | |
| | 99,717 | September 15, 2015 | 109,226 | Nil | 9,509 | 0 | 0 | 99,717 | | |
| | 507,500 | April 1, 2016 | 554,079 | Nil | 46,579 | 0 | 0 | 507,500 | | |
| | 8,436,726 | April 5, 2017 | 8,543,229 | Nil | 106,503 | 0 | 0 | 8,436,726 | | |
| | 2,055,882 | April 18, 2017 | 2,090,382 | Nil | 34,500 | 0 | 0 | 2,055,882 | | |
| RSUs total | | 19,628,934 | | 19,988,325 | 359,391 | 0 | 0 | 19,628,934 | | |
| Sub-total | | 39,607,809 | | | | | | | | |

Notes:

- Consultants are third party agents who provide our Group with business consultancy services on financial management, research and development, human resources and sales. Pursuant to the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, a total of 8,570,500 options have been granted to 49 consultants.
- Included 180,000 options granted to Mr. Herman Yu, a former non-executive Director who resigned with effect from January 11, 2018.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised during the Reporting Period was approximately HKD2.57.
- The weighted average closing price of the shares immediately before the dates on which the RSUs were exercised during the Reporting Period was approximately HKD2.70.

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

“Quarterly Average Revenue Per User” or “QARPU” Average quarterly revenue in a particular period divided by the average QPUs in that period.

“MAUs” Number of active registered users that accessed our products or services in the relevant month. (A MAU is defined as a registered user that accessed our products or services at least once during the relevant month.)

“QPUs” Number of paying users for our products and services in the relevant quarter. (A QPU for live social video platform is defined as a user that purchased virtual goods at least once during the relevant quarter.)

“Hosts” Users who generate content, have host accounts and are deemed by us to be hosts. Hosts may receive marketing fees from distributors.

“Registered users” Registered users refer to accumulated number of users who have registered an account on our live social video platform, online games or beauty camera and short video app, and duplicated accounts were not excluded.

INDEPENDENT AUDITOR'S REPORT

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

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 35 to 92, which comprises the condensed consolidated balance sheet of TIAN GE INTERACTIVE HOLDINGS LIMITED (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2019 and the condensed consolidated statement of comprehensive income for the three and six months then ended, the condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 29 August 2019

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019

| | Note | Unaudited | | Unaudited | |
|--|------|----------------------------|----------------|--------------------------|----------------|
| | | Three months ended 30 June | | Six months ended 30 June | |
| | | 2019 | 2018 | 2019 | 2018 |
| | | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Revenue | 6 | 143,364 | 196,476 | 280,151 | 389,657 |
| Cost of revenue | 7 | (13,439) | (17,261) | (26,721) | (32,406) |
| Gross profit | | 129,925 | 179,215 | 253,430 | 357,251 |
| Selling and marketing expenses | 7 | (29,740) | (50,754) | (56,009) | (97,652) |
| Administrative expenses | 7 | (23,309) | (46,804) | (39,701) | (67,039) |
| Research and development expenses | 7 | (18,986) | (28,937) | (36,826) | (50,155) |
| Reversal of impairment losses for financial assets, net | 19 | 38,916 | – | 36,351 | – |
| Other gains, net | 8 | 24,024 | 244,257 | 54,912 | 278,149 |
| Operating profit | | 120,830 | 296,977 | 212,157 | 420,554 |
| Finance income | 9 | 1,206 | 1,045 | 4,999 | 9,402 |
| Finance costs | 9 | (1,942) | (2,669) | (2,142) | (5,712) |
| Finance income/(cost), net | | (736) | (1,624) | 2,857 | 3,690 |
| Share of profit/(loss) of investment accounted for using the equity method | 17 | (1,166) | (1,220) | (1,504) | 255 |
| Impairment of investments accounted for using the equity method | 17 | (23,251) | (43,231) | (23,251) | (43,231) |
| Profit before income tax | | 95,677 | 250,902 | 190,259 | 381,268 |
| Income tax expense | 10 | (127,146) | (77,622) | (142,661) | (108,695) |
| Profit/(loss) for the period | | (31,469) | 173,280 | 47,598 | 272,573 |
| Other comprehensive income | | | | | |
| Items that may be reclassified to profit or loss | | | | | |
| Currency translation differences | | 20,745 | 38,464 | 2,258 | 7,489 |
| Total comprehensive income/(loss) for the period | | (10,724) | 211,744 | 49,856 | 280,062 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2019

| | Note | Unaudited | | Unaudited | |
|---|------|----------------------------|----------------|--------------------------|----------------|
| | | Three months ended 30 June | | Six months ended 30 June | |
| | | 2019 | 2018 | 2019 | 2018 |
| | | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Profit/(loss) attributable to: | | | | | |
| – Shareholders of the Company | | (32,075) | 175,546 | 45,703 | 274,900 |
| – Non-controlling interests | | 606 | (2,266) | 1,895 | (2,327) |
| | | <u>(31,469)</u> | <u>173,280</u> | <u>47,598</u> | <u>272,573</u> |
| Total comprehensive income/(loss) attributable to: | | | | | |
| – Shareholders of the Company | | (11,330) | 213,995 | 47,961 | 282,350 |
| – Non-controlling interests | | 606 | (2,251) | 1,895 | (2,288) |
| | | <u>(10,724)</u> | <u>211,744</u> | <u>49,856</u> | <u>280,062</u> |
| Earnings/(loss) per share attributable to owners of the Company (expressed in RMB per share) | | | | | |
| Basic earnings/(loss) per share | 11 | <u>(0.026)</u> | <u>0.137</u> | <u>0.036</u> | <u>0.216</u> |
| Diluted earnings/(loss) per share | 11 | <u>(0.026)</u> | <u>0.133</u> | <u>0.036</u> | <u>0.210</u> |

The notes on pages 42 to 92 form an integral part of these condensed consolidated financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2019

| | Note | Unaudited 30 June 2019 RMB' 000 | Audited 31 December 2018 RMB' 000 |
|---|------|--|--|
| Assets | | | |
| Non-current assets | | | |
| Land use right | 13 | 56,450 | – |
| Property and equipment | 14 | 181,977 | 186,582 |
| Right-of-use assets | 3(e) | 4,686 | – |
| Investment properties | 15 | 46,590 | 46,512 |
| Intangible assets | 16 | 290,978 | 296,399 |
| Investments accounted for using the equity method | 17 | 38,478 | 55,305 |
| Financial assets at fair value through profit or loss | 20 | 945,457 | 874,541 |
| Prepayments and other receivables | 19 | 23,139 | 74,829 |
| Deferred income tax assets | 28 | 20,220 | 38,375 |
| | | 1,607,975 | 1,572,543 |
| Current assets | | | |
| Trade receivables | 18 | 34,902 | 64,298 |
| Prepayments and other receivables | 19 | 96,583 | 102,922 |
| Financial assets at fair value through profit or loss | 20 | 1,007,768 | 871,871 |
| Term deposits with initial term over 3 months | | – | 112,318 |
| Cash and cash equivalents | 21 | 549,432 | 432,588 |
| | | 1,688,685 | 1,583,997 |
| Assets classified as held-for-sale | 22 | 6,111 | – |
| | | 3,302,771 | 3,156,540 |
| Total assets | | | |
| Equity | | | |
| Equity attributable to shareholders of the Company | | | |
| Share capital | 23 | 777 | 789 |
| Share premium | 23 | 1,774,151 | 1,828,683 |
| Treasury stock | 23 | (4,080) | (25,469) |
| Other reserves | 24 | 516,264 | 510,665 |
| Retained earnings | | 562,443 | 516,740 |
| | | 2,849,555 | 2,831,408 |
| Non-controlling interests | | 14,619 | 12,762 |
| | | 2,864,174 | 2,844,170 |
| Total equity | | | |

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2019

| | Note | Unaudited 30 June 2019 RMB' 000 | Audited 31 December 2018 RMB' 000 |
|---|------|--|--|
| Liabilities | | | |
| Non-current liabilities | | | |
| Lease liabilities | | 1,056 | – |
| Deferred income tax liabilities | 28 | 186,805 | 109,966 |
| Other non-current liabilities | | 4,244 | 2,633 |
| | | <u>192,105</u> | <u>112,599</u> |
| Current liabilities | | | |
| Trade payables | 26 | 3,173 | 5,049 |
| Other payables and accruals | 27 | 124,162 | 71,192 |
| Income tax liabilities | | 77,366 | 90,560 |
| Lease liabilities | | 990 | – |
| Customer advance and deferred revenue | | 35,690 | 32,970 |
| | | <u>241,381</u> | <u>199,771</u> |
| Liabilities directly associated with assets classified as held-for-sale | 22 | 5,111 | – |
| Total liabilities | | <u>438,597</u> | <u>312,370</u> |
| Total equity and liabilities | | <u>3,302,771</u> | <u>3,156,540</u> |

The notes on pages 42 to 92 form an integral part of these condensed consolidated financial information.

Fu Zhengjun

Director

Mai Shi'en

Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | | Unaudited | | | | | | | |
|------|---|--|------------------|----------------|----------------|----------------|------------------|---------------|------------------|
| | | Equity attributable to shareholders of the Company | | | | | Non- | | |
| | | Share | Share | Treasury | Other | Retained | Total | controlling | Total |
| Note | | capital | premium | stock | reserves | earnings | | interests | equity |
| | | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| | Balance at 1 January 2019 | 789 | 1,828,683 | (25,469) | 510,665 | 516,740 | 2,831,408 | 12,762 | 2,844,170 |
| | Comprehensive income/(loss) | | | | | | | | |
| | Profit for the six months ended 30 June 2019 | - | - | - | - | 45,703 | 45,703 | 1,895 | 47,598 |
| | Other comprehensive loss | | | | | | | | |
| | Currency translation differences | 24 | - | - | 2,258 | - | 2,258 | - | 2,258 |
| | Total comprehensive income | | | | | | | | |
| | | - | - | - | 2,258 | 45,703 | 47,961 | 1,895 | 49,856 |
| | Transactions with shareholders of the Company, recognised directly in equity | | | | | | | | |
| | Employees share option scheme: | | | | | | | | |
| | - value of employee service | 24 | - | - | 3,341 | - | 3,341 | - | 3,341 |
| | - proceeds from shares issued | 23 | 1 | 542 | - | - | 543 | - | 543 |
| | Repurchase of ordinary shares | 23 | - | - | (33,698) | - | (33,698) | - | (33,698) |
| | Cancellation of ordinary shares | 23 | (13) | (55,074) | 55,087 | - | - | - | - |
| | Disposal of a subsidiary | | - | - | - | - | - | (38) | (38) |
| | Total transactions with shareholders of the Company, recognised directly in equity | | | | | | | | |
| | | (12) | (54,532) | 21,389 | 3,341 | - | (29,814) | (38) | (29,852) |
| | Balance at 30 June 2019 | 777 | 1,774,151 | (4,080) | 516,264 | 562,443 | 2,849,555 | 14,619 | 2,864,174 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | | Unaudited | | | | | | | | |
|---|---|--|----------------|-----------------|------------------|----------------|-------------------|------------------|---------------------------|------------------|
| | | Equity attributable to shareholders of the Company | | | | | | | | |
| Note | | Shares held | | | | | Retained earnings | Total | Non-controlling interests | Total equity |
| | | Share capital | for RSU Scheme | Treasury stock | Share premium | Other reserves | | | | |
| | | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Balance at 31 December 2017 | | | | | | | | | | |
| | as originally presented | 787 | (6) | - | 1,952,499 | 569,960 | 193,935 | 2,717,175 | 11,582 | 2,728,757 |
| | Change in accounting policy | - | - | - | - | (124,892) | 124,892 | - | - | - |
| | Restated total equity at 1 January 2018 | 787 | (6) | - | 1,952,499 | 445,068 | 318,827 | 2,717,175 | 11,582 | 2,728,757 |
| Comprehensive income/(loss) | | | | | | | | | | |
| Profit/(loss) for the six months ended 30 | | | | | | | | | | |
| | June 2018 | - | - | - | - | - | 274,900 | 274,900 | (2,327) | 272,573 |
| Other comprehensive income/(loss) | | | | | | | | | | |
| | Currency translation differences | 24 | - | - | - | 7,450 | - | 7,450 | 39 | 7,489 |
| | Total comprehensive income/(loss) | - | - | - | - | 7,450 | 274,900 | 282,350 | (2,288) | 280,062 |
| Transactions with shareholders of the Company, recognised directly in equity | | | | | | | | | | |
| Employees share option scheme and restricted share units ("RSU") schemes: | | | | | | | | | | |
| | - vest and transfer of RSUs | - | 6 | - | (6) | - | - | - | - | - |
| | - value of employee service | 24 | - | - | - | 11,936 | - | 11,936 | - | 11,936 |
| | - proceeds from shares issued | 23 | 3 | - | 4,071 | - | - | 4,074 | - | 4,074 |
| Dividends relating to 2017 paid in | | | | | | | | | | |
| | June 2018 | 12 | - | - | (74,537) | - | - | (74,537) | - | (74,537) |
| Appropriation of dividend to non-controlling interests | | | | | | | | | | |
| | | - | - | - | - | - | - | - | (886) | (886) |
| | Repurchase of ordinary shares | 23 | - | - | (30,168) | - | - | (30,168) | - | (30,168) |
| | Cancellation of ordinary shares | 23 | - | - | 1,153 | (1,153) | - | - | - | - |
| | Step-acquisition of a subsidiary | | 8 | - | - | 70,755 | - | 70,763 | 7,152 | 77,915 |
| | Total transactions with shareholders of the Company, recognised directly in equity | 11 | 6 | (29,015) | (870) | 11,936 | - | (17,932) | 6,266 | (11,666) |
| | Balance at 30 June 2018 | 798 | (0) | (29,015) | 1,951,629 | 464,454 | 593,727 | 2,981,593 | 15,560 | 2,997,153 |

The notes on pages 42 to 92 form an integral part of these condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | | Unaudited | |
|--|-------|--------------------------|------------------|
| | | Six months ended 30 June | |
| | Note | 2019 RMB' 000 | 2018 RMB' 000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | | 173,434 | 174,949 |
| Income tax paid | | (58,344) | (52,577) |
| Net cash generated from operating activities | | 115,090 | 122,372 |
| Cash flows from investing activities | | | |
| Step-acquisition of a subsidiary, net of cash acquired | | – | (134,128) |
| Proceeds from disposal of subsidiaries, net of cash disposed | 19 | 13,102 | 15,215 |
| Deposit received from a potential disposal of investment in a subsidiary | 27 | – | 63,500 |
| Proceeds from disposal of investments accounted for using the equity method | 19 | 2,000 | 30,000 |
| Payment for acquisition of investments accounted for using the equity method | 17 | (8,343) | (1,272) |
| Advance received from disposal of investment companies | | – | 45,949 |
| Purchase of and prepayment for property and equipment, construction in progress, intangible assets and other non-current assets | | (5,467) | (60,261) |
| Deposit paid for purchase of land use right | 19 | (3,244) | – |
| Proceeds on disposal of property and equipment and intangible assets | | 127 | 25 |
| Payment for term deposits with initial term of over 3 months | | – | (101,039) |
| Proceeds from disposal of term deposits with initial term of over 3 months | | 110,333 | 115,213 |
| Payment for financial assets at fair value through profit or loss | | (1,254,075) | (1,568,719) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 1,138,605 | 1,543,156 |
| Cash paid for refundable prepayment of investments | | (5,149) | (10,494) |
| Receipt of refundable prepayment for potential investments | 19 | 1,000 | 15,913 |
| Loans granted to third parties and related parties | | (22,968) | (43,135) |
| Repayment of loans granted to related parties and third parties | | 7,396 | 34,438 |
| Dividend received from investments accounted for using the equity method and financial assets at fair value through profit or loss | | 3,544 | 2,544 |
| Interest received | | 313 | 1,360 |
| Net cash used in investing activities | | (22,826) | (51,735) |
| Cash flows from financing activities | | | |
| Proceeds from exercise of share options | | 700 | 3,926 |
| Advance received from an investment in a subsidiary | 27 | 55,000 | – |
| Payments for repurchase of ordinary shares | 23(b) | (33,698) | (30,168) |
| Dividends paid to the Company's shareholders | 12 | – | (74,537) |
| Dividends paid to non-controlling interests | | – | (886) |
| Net cash generated from/(used in) financing activities | | 22,002 | (101,665) |
| Net increase/(decrease) in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of period | | 432,588 | 273,652 |
| Exchange gain on cash and cash equivalents | | 2,578 | 2,188 |
| Cash and cash equivalents at end of period | | 549,432 | 244,812 |

The notes on pages 42 to 92 form an integral part of these condensed consolidated financial information.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

This condensed consolidated financial information is presented in Renminbi (the “**RMB**”), unless otherwise stated. This condensed consolidated financial information was approved by the board of directors of the Company for issue on 29 August 2019.

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

Key events

- (i) During the six months ended 30 June 2019, the Company repurchased 14,070,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited. The total amount paid to repurchase these ordinary shares was HK\$39,135 thousand (approximately RMB33,698 thousand). A total of 20,299,000 ordinary shares recorded as treasury stocks were cancelled and deducted from the share capital and share premium within shareholders’ equity (Note 23).
- (ii) On 3 June 2019, the Company granted 10,000,000 Post-IPO RSUs to its directors and employees with below vesting schedule, 50% shall vest on 30 September 2019 and 50% shall vest on 31 December 2019 (Note 23).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2 BASIS OF PREPARATION

This condensed consolidated financial information for the three and six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard (“IAS”) 34 ‘Interim Financial Reporting’. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS as set out in the 2018 annual report of the Company dated 28 March 2019.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements, except as described below:

- (a) The estimation of income tax using the tax rate that would be applicable to expected total annual earnings (Note 10).
- (b) **Non-current assets (or disposal groups) held for sale**

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 ACCOUNTING POLICIES – *continued*

(c) Land use right

Land use right are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated income statement on a straight-line basis over the remaining period of the lease.

(d) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 Leases.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3(e). The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

(e) Changes in accounting policies

The note below explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 ACCOUNTING POLICIES – *continued*

(e) Changes in accounting policies – *continued*

(i) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

| | RMB’ 000 |
|--|-------------------|
| Operating lease commitments disclosed as at 31 December 2018 | 1,143 |
| Discounted using the lessee’s incremental borrowing rate of at the date of initial application | 1,057 |
| Less: short-term leases recognised on a straight-line basis as expense | <u>(131)</u> |
| Lease liability recognised as at 1 January 2019 | <u>926</u> |
| Of which are: | |
| Current lease liabilities | 638 |
| Non-current lease liabilities | <u>288</u> |
| | <u>926</u> |

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

| | 30 June 2019 RMB’ 000 | 1 January 2019 RMB’ 000 |
|------------|--------------------------|----------------------------|
| Properties | <u>4,686</u> | <u>4,905</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 ACCOUNTING POLICIES – *continued*

(e) Changes in accounting policies – *continued*

(i) Adjustments recognised on adoption of IFRS 16 – *continued*

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Prepayments and other receivables (current) – decrease by RMB2,676 thousand
- Prepayments and other receivables (non-current) – decrease by RMB1,303 thousand
- Right-of-use assets – increase by RMB4,905 thousand
- Lease liabilities (current) – increase by RMB638 thousand
- Lease liabilities (non-current) – increase by RMB288 thousand

Impact on segment disclosures and earnings per share

Segment assets as at 30 June 2019 increased as a result of the change in accounting policy. The following segment was affected by the change in policy:

| | Segment assets RMB' 000 |
|--|----------------------------|
| Properties – PRC (Excluding Hong Kong) | 2,624 |
| Properties – Other regions | 2,062 |
| | <hr/> |
| | 4,686 |
| | <hr/> <hr/> |

The adoption of IFRS 16 had no impact on earnings per share for the six months ended 30 June 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 ACCOUNTING POLICIES – *continued*

(e) Changes in accounting policies – *continued*

(i) *Adjustments recognised on adoption of IFRS 16 – continued*

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(ii) *The Group's leasing activities and how these are accounted for*

The Group mainly leases properties. Rental contracts are typically made for fixed periods of 1 to 2 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of properties were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 ACCOUNTING POLICIES – *continued*

(e) Changes in accounting policies – *continued*

(ii) *The Group's leasing activities and how these are accounted for – continued*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4 ESTIMATES

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

In preparing this condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2018.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2018.

There have been no changes in the risk management department or in any risk management policies since the year ended 31 December 2018.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.3 Fair value estimation

(i) Fair value hierarchy

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

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

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

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

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

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.3 Fair value estimation – *continued*

The following table presents the Group's assets and liabilities that are measured at fair value as at 30 June 2019.

Recurring fair value
measurements

| at 30 June 2019 | Valuation techniques and key inputs | Level 1 RMB' 000 | Level 2 RMB' 000 | Level 3 RMB' 000 | Total RMB' 000 |
|---|--|---------------------|---------------------|---------------------|-------------------|
| Assets | | | | | |
| Financial assets at fair value through profit or loss | | | | | |
| - Wealth management products | Bank quoted expected return | - | - | 1,007,768 | 1,007,768 |
| - Venture capital funds | Net asset value | - | - | 400,448 | 400,448 |
| - Unlisted equity investments | Latest round financing or net asset value or discounted cash flow, future cash flows are estimated based on the key assumptions including discount rate, growth rate of net profit, etc. | - | - | 496,931 | 496,931 |
| - Structured notes | Bank quoted expected return | - | - | 10,337 | 10,337 |
| - Contingent consideration | Discounted cash flow, future cash flows are estimated based on the key assumptions including discount rate, etc. | - | - | 37,741 | 37,741 |
| | | <u>-</u> | <u>-</u> | <u>1,953,225</u> | <u>1,953,225</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.3 Fair value estimation – *continued*

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2018.

Recurring fair value
measurements

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

There were no transfers between levels during the period. There were no other changes in valuation techniques during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

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

The following table presents the changes in level 3 instruments as at 30 June 2019.

| | Financial assets at fair value through profit and loss RMB' 000 |
|--|---|
| Opening balance at 1 January 2019 | 1,746,412 |
| Additions | 1,292,917 |
| Disposals | (1,138,299) |
| Reclassified as held for sale (Note 22) | (5,727) |
| Dividend received (Note 20) | (2,874) |
| Fair value change recognized in consolidated statements of comprehensive income under 'other gain, net' (Note 8) | 56,901 |
| Dividend income (Note 8) | 2,874 |
| Currency translation difference | 1,021 |
| | <hr/> |
| Closing balance at 30 June 2019 | 1,953,225 |
| | <hr/> <hr/> |
| Total unrealised gains for the period included in profit or loss for assets held at the end of the reporting period | 42,822 |
| | <hr/> <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

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

The following table presents the changes in level 3 instruments as at 30 June 2018.

| | Financial assets at fair value through profit and loss RMB'000 |
|---|--|
| Opening balance at 1 January 2018 | 1,582,002 |
| Additions | 1,568,719 |
| Step-acquisition of a subsidiary | 15,082 |
| Disposals | (1,519,507) |
| Derecognition of Shanghai Benqu from a financial asset through profit or loss | (31,870) |
| Proceeds from investment income of venture capital funds and unlisted equity investments | (25,708) |
| Fair value change recognized in consolidated statements of comprehensive income under 'other gain' | 230,443 |
| Investment income recognised in consolidated statements of comprehensive income under 'other gain' | 40,679 |
| Other change | 18,228 |
| Currency translation difference | 2,478 |
| | <hr/> |
| Closing balance at 30 June 2018 | <u>1,880,546</u> |
| | <hr/> |
| Total unrealised gains for the period included in profit or loss for assets held at the end of the reporting period | <u>230,443</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

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

Valuation processes

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

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

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

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

5.5 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade receivables
- Other receivables (excluding prepaid expenses)
- Term deposits with initial terms over 3 months
- Cash and cash equivalents
- Trade payables
- Other payables and accruals (excluding accrued payroll, government grant and other tax liabilities)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6 SEGMENT INFORMATION

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

The Group has following reportable segments of continuing operation for the six months ended 30 June 2019 and 2018:

- Online interactive entertainment service;
- Advertising;
- Others.

Online interactive entertainment service of the Group mainly comprise of the provision of live social video platform and provision of online games. Other segments of the Group mainly comprise of the provision of software research and development and other services.

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

There were no material inter-segment sales during the six months ended 30 June 2019 and 2018. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the condensed 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 condensed financial information. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6 SEGMENT INFORMATION – *continued*

The segment information provided to the CODM for the reportable segments for the three months ended 30 June 2019 and 2018 is as follows:

| | Three months ended 30 June 2019 | | | | Three months ended 30 June 2018 | | | |
|--|--|-------------|----------|----------|--|-------------|----------|----------|
| | Online interactive entertainment | Advertising | Others | Total | Online interactive entertainment | Advertising | Others | Total |
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Revenue | 114,815 | 20,340 | 8,209 | 143,364 | 177,233 | 12,840 | 6,403 | 196,476 |
| Gross profit | 105,168 | 17,179 | 7,578 | 129,925 | 160,622 | 12,261 | 6,332 | 179,215 |
| – Depreciation, amortization and impairment charges included in segment cost | 1,405 | 250 | – | 1,655 | 1,326 | – | 3 | 1,329 |
| Operating profit | | | | 120,830 | | | | 296,977 |
| Finance income | | | | 1,206 | | | | 1,045 |
| Finance costs | | | | (1,942) | | | | (2,669) |
| Shares of losses of investments accounted for using the equity method | | | | (1,166) | | | | (1,220) |
| Impairment on investments accounted for using the equity method | | | | (23,251) | | | | (43,231) |
| Profit before income tax | | | | 95,677 | | | | 250,902 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6 SEGMENT INFORMATION – *continued*

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2019 and 2018 is as follows:

| | Six months ended 30 June 2019 | | | | Six months ended 30 June 2018 | | | |
|--|--|-------------|----------|-----------------|--|-------------|----------|-----------------|
| | Online interactive entertainment | Advertising | Others | Total | Online interactive entertainment | Advertising | Others | Total |
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Revenue | 232,301 | 37,911 | 9,939 | <u>280,151</u> | 358,168 | 23,357 | 8,132 | <u>389,657</u> |
| Gross profit | 213,650 | 30,552 | 9,228 | <u>253,430</u> | 326,471 | 22,778 | 8,002 | <u>357,251</u> |
| - Depreciation, amortization and impairment charges included in segment cost | <u>2,804</u> | <u>500</u> | <u>-</u> | <u>3,304</u> | <u>2,626</u> | <u>-</u> | <u>6</u> | <u>2,632</u> |
| Operating profit | | | | 212,157 | | | | 420,554 |
| Finance income | | | | 4,999 | | | | 9,402 |
| Finance costs | | | | (2,142) | | | | (5,712) |
| Shares of profit/(losses) of investments accounted for using the equity method | | | | (1,504) | | | | 255 |
| Impairment on investments accounted for using the equity method | | | | <u>(23,251)</u> | | | | <u>(43,231)</u> |
| Profit before income tax | | | | <u>190,259</u> | | | | <u>381,268</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

7 EXPENSES BY NATURE

| | Three months ended 30 June | | Six months ended 30 June | |
|---|-------------------------------|------------------|-----------------------------|------------------|
| | 2019 RMB' 000 | 2018 RMB' 000 | 2019 RMB' 000 | 2018 RMB' 000 |
| Employee benefit expenses (including share-based compensation expenses) | 35,170 | 41,292 | 65,210 | 81,603 |
| Promotion and advertising expenses | 20,185 | 35,690 | 38,555 | 67,380 |
| Impairment of intangible assets (Note 16) | – | 19,447 | – | 19,447 |
| Bandwidth and server custody fees | 5,972 | 7,928 | 12,466 | 16,002 |
| Commission charged by platforms and game developers | 1,101 | 5,713 | 2,043 | 9,034 |
| Game development costs | 1,231 | 6,495 | 1,883 | 8,034 |
| Travelling and entertainment expenses | 3,202 | 3,506 | 6,270 | 7,321 |
| Depreciation of property and equipment (Note 14) | 3,351 | 3,498 | 6,814 | 6,788 |
| Amortization of intangible assets (Note 16) | 3,001 | 3,697 | 6,029 | 6,295 |
| Utilities and office expenses | 2,135 | 2,003 | 4,095 | 4,415 |
| Auditors' remuneration | 1,200 | 1,407 | 2,400 | 2,484 |
| Operating lease rentals | 654 | 1,077 | 1,261 | 2,172 |
| Payment handling costs | 332 | 578 | 624 | 1,376 |
| Depreciation of right-of-use assets | 921 | – | 1,690 | – |
| Amortization of land use right (Note 13) | 1,152 | – | 1,152 | – |
| Others | 5,867 | 11,425 | 8,765 | 14,901 |
| Total cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses | 85,474 | 143,756 | 159,257 | 247,252 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8 OTHER GAINS, NET

| | Three months ended | | Six months ended | |
|---|--------------------|----------------|------------------|----------------|
| | 30 June | | 30 June | |
| | 2019 | 2018 | 2019 | 2018 |
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Investment interest on term deposits with initial term over 3 months | 26 | 1,393 | 713 | 2,406 |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss: | | | | |
| – Structured notes (Note 20) | 128 | (43) | 373 | (588) |
| – Unlisted equity investments (Note 20) | (6,353) | 208,544 | (6,368) | 216,066 |
| – Venture capital funds (Note 20) | 21,527 | 20,561 | 41,087 | 22,342 |
| – Wealth management products | 10,491 | 9,493 | 20,472 | 19,337 |
| – Redeemable preferred shares | – | 44 | – | 11,906 |
| – Contingent consideration (Note 20) | 2,193 | – | 1,337 | – |
| Dividend income (Note 20) | 2,874 | 2,059 | 2,874 | 2,059 |
| Government grants | | | | |
| – Technology award | 980 | 1,034 | 1,980 | 1,145 |
| – Others | 400 | – | 548 | – |
| Gains on disposal of potential investments | – | 401 | – | 1,721 |
| Losses on remeasurement of assets classified as held for sale (Note 22) | (1,684) | – | (1,684) | – |
| Interest income on loans to third parties and related parties | 833 | 946 | 957 | 2,152 |
| Foreign exchange losses on non-financing activity | (235) | (7) | (226) | (491) |
| Others | (7,156) | (168) | (7,151) | 94 |
| | <u>24,024</u> | <u>244,257</u> | <u>54,912</u> | <u>278,149</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9 FINANCE INCOME/(COST), NET

| | Three months ended | | Six months ended | |
|--|--------------------|----------------|------------------|----------------|
| | 30 June | | 30 June | |
| | 2019 | 2018 | 2019 | 2018 |
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Finance income: | | | | |
| – Exchange gain on financing activities, net | 233 | 289 | 3,145 | 7,709 |
| – Interest income on cash and cash equivalents | 973 | 756 | 1,854 | 1,693 |
| | <u>1,206</u> | <u>1,045</u> | <u>4,999</u> | <u>9,402</u> |
| Finance costs: | | | | |
| – Interest expenses on lease liability | (24) | – | (35) | – |
| – Other interest expenses | (37) | – | (73) | – |
| – Exchange loss on financing activities, net | (1,881) | (2,669) | (2,034) | (5,712) |
| | <u>(1,942)</u> | <u>(2,669)</u> | <u>(2,142)</u> | <u>(5,712)</u> |
| Finance income/(loss), net | <u>(736)</u> | <u>(1,624)</u> | <u>2,857</u> | <u>3,690</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

10 INCOME TAX EXPENSE

The Group is not subject to taxation in the Cayman Islands. Hong Kong profits tax has been provided for at a rate of 16.5% (2018:16.5%) for the period on the estimated assessable profits arising in or derived from Hong Kong. The companies established and operated in the PRC are subject to PRC Enterprise Income Tax ("EIT") at a rate of 25% (2018: 25%), and certain Group's subsidiaries established in the PRC and PRC Operating Entities are entitled to preferential EIT rate of 15% (2018: 15%).

| | Three months ended | | Six months ended | |
|-------------------------------|--------------------|---------------|------------------|----------------|
| | 30 June | | 30 June | |
| | 2019 | 2018 | 2019 | 2018 |
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Current income tax | 16,024 | 23,660 | 46,726 | 35,830 |
| Deferred income tax (Note 28) | 111,122 | 53,962 | 95,935 | 72,865 |
| | <u>127,146</u> | <u>77,622</u> | <u>142,661</u> | <u>108,695</u> |

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for companies established and operated in the PRC and Hong Kong for the year ending 31 December 2019 is 16.2% and 16.5%, respectively (the average annual tax rate used for companies established and operated in the PRC and Hong Kong for the year ended 31 December 2018 was 19.41% and 16.5%, respectively).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11 EARNINGS PER SHARE

(a) Basic

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.

| | Three months ended 30 June | | Six months ended 30 June | |
|---|-------------------------------|------------------|-----------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Profit/(loss) attributable to shareholders of the Company (RMB'000) | <u>(32,075)</u> | <u>175,546</u> | <u>45,703</u> | <u>274,900</u> |
| Weighted average number of ordinary shares in issue (thousand shares) | <u>1,257,026</u> | <u>1,281,710</u> | <u>1,260,710</u> | <u>1,273,773</u> |
| Basic earnings/(loss) per share (in RMB/share) | <u>(0.026)</u> | <u>0.137</u> | <u>0.036</u> | <u>0.216</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11 EARNINGS PER SHARE – *continued*

(b) Diluted

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

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. As the Group incurred loss for the three-month period ended 30 June 2019, the share options and the RSUs are anti-dilutive and, consequently, not included in the computation of diluted loss per share for the three-month period ended 30 June 2019.

| | Three months ended | | Six months ended | |
|---|--------------------|-----------|------------------|-----------|
| | 30 June | | 30 June | |
| | 2019 | 2018 | 2019 | 2018 |
| Profit/(loss) attributable to shareholders of the Company (RMB' 000) | (32,075) | 175,546 | 45,703 | 274,900 |
| Weighted average number of ordinary shares in issue (thousand shares) | 1,257,026 | 1,281,710 | 1,260,710 | 1,273,773 |
| Adjustments for share based compensation – share options (thousand shares) | – | 28,431 | 12,663 | 29,278 |
| Adjustments for share based compensation – RSUs (thousand shares) | – | 4,832 | 658 | 6,839 |
| Weighted average number of ordinary shares for the calculation of diluted EPS (thousand shares) | 1,257,026 | 1,314,973 | 1,274,031 | 1,309,890 |
| Diluted earnings/(loss) per share (in RMB/share) | (0.026) | 0.133 | 0.036 | 0.210 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

12 DIVIDENDS

| | Three months ended 30 June | | Six months ended 30 June | |
|-------------------------------|-------------------------------|------------------|-----------------------------|------------------|
| | 2019 RMB' 000 | 2018 RMB' 000 | 2019 RMB' 000 | 2018 RMB' 000 |
| Dividends paid by the Company | – | 74,537 | – | 74,537 |

Pursuant to the resolution of the board meeting held in March 2018 and approval of the annual general meeting held in June 2018, the Company declared a final dividend for the year ended 31 December 2017 of HK\$90,361 thousand (approximately RMB74,537 thousand) in total or HK\$0.07 per ordinary share out of the Company's share premium account, which were fully paid in June 2018.

13 LAND USE RIGHT

| | Six months ended 30 June | |
|-------------------------|-----------------------------|------------------|
| | 2019 RMB' 000 | 2018 RMB' 000 |
| Opening net book amount | – | – |
| Additions (i) | 57,602 | – |
| Amortisation | (1,152) | – |
| Closing net book amount | <u>56,450</u> | <u>–</u> |

- (i) In 2017, the Group entered into a strategic agreement with the Hangzhou municipal government for the development of the Innovation Industrial Housing Project. The Hangzhou municipal government gave the Group preferential treatment and offered the Group the land use right at a total consideration of RMB55,620 thousand with a lease term of 50 years.

In June 2019, the Group obtained the certificate for state land use right and transferred the prepayment of RMB55,620 thousand (Note 19) to land use right. The Group plans to develop the land pursuant to the Innovative Industrial Housing Project, which includes building a two-story podium and two high-rise office buildings on the land. The construction is expected to be completed around January 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14 PROPERTY AND EQUIPMENT

| | Building RMB' 000 | Decorations RMB' 000 | Furniture and Office Equipment RMB' 000 | Server and Other Equipment RMB' 000 | Motor Vehicles RMB' 000 | Leasehold Improvement RMB' 000 | Construction in progress RMB' 000 | Total RMB' 000 |
|--|----------------------|-------------------------|--|--|-------------------------------|--------------------------------------|---|-------------------|
| Six months ended 30 June 2019 | | | | | | | | |
| Net book value | 170,820 | 2,472 | 1,912 | 8,275 | 3,103 | - | - | 186,582 |
| Opening amount as at 1 January 2019 | - | 45 | 218 | 574 | 752 | 35 | 686 | 2,310 |
| Additions | - | - | - | (123) | - | - | - | (123) |
| Disposals | (2,604) | (998) | (504) | (2,028) | (601) | (79) | - | (6,814) |
| Depreciation charge | 21 | (199) | (3) | - | - | 197 | 6 | 22 |
| Currency translation difference | - | - | - | - | - | - | - | - |
| Closing amount as at 30 June 2019 | 168,237 | 1,320 | 1,623 | 6,698 | 3,254 | 153 | 692 | 181,977 |
| At 30 June 2019 | | | | | | | | |
| Cost | 191,240 | 14,557 | 6,971 | 41,093 | 6,735 | 8,189 | 692 | 269,477 |
| Accumulated depreciation and impairment | (23,003) | (13,237) | (5,348) | (34,395) | (3,481) | (8,036) | - | (87,500) |
| Net book amount | 168,237 | 1,320 | 1,623 | 6,698 | 3,254 | 153 | 692 | 181,977 |
| Six months ended 30 June 2018 | | | | | | | | |
| Net book value | 160,542 | 3,548 | 2,055 | 8,402 | 3,468 | - | 15,429 | 193,444 |
| Opening amount as at 1 January 2018 | - | 275 | 347 | 2,865 | - | - | - | 3,487 |
| Additions | - | - | 190 | - | - | - | - | 190 |
| Step acquisition of a subsidiary | 14,113 | 1,316 | - | - | - | - | (15,429) | - |
| Transferred from/(to) construction in progress | - | - | - | (18) | - | - | - | (18) |
| Disposals | (2,500) | (1,485) | (460) | (1,811) | (532) | - | - | (6,788) |
| Depreciation charge | 722 | 53 | 3 | - | 14 | - | - | 792 |
| Currency translation difference | - | - | - | - | - | - | - | - |
| Closing amount as at 30 June 2018 | 172,877 | 3,707 | 2,135 | 9,438 | 2,950 | - | - | 191,107 |
| At 30 June 2018 | | | | | | | | |
| Cost | 190,660 | 14,616 | 6,627 | 45,414 | 6,317 | 7,957 | - | 271,591 |
| Accumulated depreciation and impairment | (17,783) | (10,909) | (4,492) | (35,976) | (3,367) | (7,957) | - | (80,484) |
| Net book amount | 172,877 | 3,707 | 2,135 | 9,438 | 2,950 | - | - | 191,107 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15 INVESTMENT PROPERTIES

| | Six months ended | |
|----------------------------------|--------------------------|--------------------------|
| | 30 June 2019 RMB' 000 | 30 June 2018 RMB' 000 |
| At fair value | | |
| Opening amount as at 1 January | 46,512 | 45,319 |
| Currency translation differences | 78 | 571 |
| Closing amount as at 30 June | <u>46,590</u> | <u>45,890</u> |

16 INTANGIBLE ASSETS

| | Goodwill RMB' 000 | Computer Software RMB' 000 | Domain Name and Technology RMB' 000 | Platform, game and license RMB' 000 | Customer Resource RMB' 000 | Total RMB' 000 |
|--|----------------------|----------------------------------|--|--|----------------------------------|-------------------|
| Six months ended | | | | | | |
| 30 June 2019 | | | | | | |
| Net book value | | | | | | |
| Opening amount as at 1 January 2019 | 233,611 | 15,277 | 720 | 33,397 | 13,394 | 296,399 |
| Additions | - | 529 | 76 | - | - | 605 |
| Amortization charge | - | (1,769) | (277) | (1,113) | (2,870) | (6,029) |
| Currency translation difference | 4 | - | (1) | - | - | 3 |
| Closing amount as at 30 June 2019 | <u>233,615</u> | <u>14,037</u> | <u>518</u> | <u>32,284</u> | <u>10,524</u> | <u>290,978</u> |
| At 30 June 2019 | | | | | | |
| Cost | 255,600 | 32,717 | 10,564 | 70,411 | 17,221 | 386,513 |
| Accumulated amortization and impairment | (21,985) | (18,680) | (10,046) | (38,127) | (6,697) | (95,535) |
| Net book amount | <u>233,615</u> | <u>14,037</u> | <u>518</u> | <u>32,284</u> | <u>10,524</u> | <u>290,978</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16 INTANGIBLE ASSETS – *continued*

| | Goodwill RMB' 000 | Computer and mobile software RMB' 000 | Domain name and Technology RMB' 000 | Platform, game and license RMB' 000 | Customer resource RMB' 000 | Total RMB' 000 |
|---|----------------------|--|--|--|----------------------------------|-------------------|
| Six months ended | | | | | | |
| 30 June 2018 | | | | | | |
| Net book value | | | | | | |
| Opening amount as at | | | | | | |
| 1 January 2018 | 29,563 | 15,712 | 1,309 | 50,616 | – | 97,200 |
| Additions | – | 472 | 33 | – | – | 505 |
| Step-acquisition of a subsidiary | 210,166 | 3,001 | – | – | 17,221 | 230,388 |
| Amortization charge | – | (2,072) | (389) | (2,877) | (957) | (6,295) |
| Impairment loss | (6,218) | – | – | (13,229) | – | (19,447) |
| Exchange and currency translation difference | 25 | – | (3) | – | – | 22 |
| | <u>233,536</u> | <u>17,113</u> | <u>950</u> | <u>34,510</u> | <u>16,264</u> | <u>302,373</u> |
| Closing amount as at | | | | | | |
| 30 June 2018 | <u>233,536</u> | <u>17,113</u> | <u>950</u> | <u>34,510</u> | <u>16,264</u> | <u>302,373</u> |
| At 30 June 2018 | | | | | | |
| Cost | 255,520 | 32,717 | 9,880 | 70,411 | 17,221 | 385,220 |
| Accumulated amortization and impairment | <u>(21,984)</u> | <u>(15,075)</u> | <u>(8,930)</u> | <u>(35,901)</u> | <u>(957)</u> | <u>(82,847)</u> |
| Net book amount | <u>233,536</u> | <u>17,113</u> | <u>950</u> | <u>34,510</u> | <u>16,264</u> | <u>302,373</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|---------------|-----------------------------------|---------------------------------------|
| Associates | 31,523 | 53,307 |
| Joint venture | 6,955 | 1,998 |
| | <u>38,478</u> | <u>55,305</u> |

(a) Investment in associates

| | Six months ended | |
|---|--------------------------|--------------------------|
| | 30 June 2019 RMB' 000 | 30 June 2018 RMB' 000 |
| Beginning of the period | 53,307 | 118,948 |
| Additions (i) | 3,276 | 1,272 |
| Share of loss of investments accounted for using the equity method | (1,394) | (6,620) |
| Dividend received | (670) | (484) |
| Impairment (i)(ii) | (23,251) | (43,231) |
| Disposal (iii) | – | (31,499) |
| Currency translation differences | 255 | 33 |
| | <u>31,523</u> | <u>38,419</u> |
| End of the period | <u>31,523</u> | <u>38,419</u> |

- (i) During the six months ended 30 June 2019, the Group made a capital injection of MYR2,000 thousand (approximately RMB3,276 thousand) to an associate engaged in small loan lending overseas. As at 30 June 2019, the Group made an impairment provision of RMB1,683 thousand against the carrying amount of the associate based on the value in use calculation as the financial/business outlook of the associate was not optimistic after revision.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(a) Investment in associates – *continued*

- (ii) During the six months ended 30 June 2019, the Group carried out an impairment assessment on certain associates, which were engaged in business promotion and trading via online female network community in mainland China and online health information service in mainland China, based on value in use calculation, as the financial/business outlook of the associates were not optimistic after revision. The Group made an impairment provision of RMB21,568 thousand against the carrying amount of the associates.

During the six months ended 30 June 2018, the Group made an impairment provision of RMB43,231 thousand against the carrying amount of certain associates which were principally engaged in the operation of an online peer-to-peer (“P2P”) lending platform in mainland China.

- (iii) During the six months ended 30 June 2018, the Group disposed several associates, which were engaged in the operation of small loan lending in mainland China. The disposals resulted in an aggregate gain of approximately RMB401 thousand.

(b) Investment in joint venture

| | Six months ended | |
|--|--------------------------|--------------------------|
| | 30 June 2019 RMB' 000 | 30 June 2018 RMB' 000 |
| Beginning of the period | 1,998 | 12,812 |
| Additions (i) | 5,067 | 105,384 |
| Share of profit/(loss) of investment accounted for using the equity method | (110) | 6,875 |
| Currency translation differences | – | 151 |
| End of the period | <u>6,955</u> | <u>125,222</u> |

- (i) During the six months ended 30 June 2019, the Group entered into an investment agreement with two third party companies to establish a joint venture in Singapore, which would engage in provision of online entertainment business in Vitamin. The Group subscribed for 49% of its equity interest in the joint venture at a consideration of USD1,470 thousand. As at 30 June 2019, USD735 thousand (approximately RMB5,067 thousand) was paid by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 TRADE RECEIVABLES

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|--|-----------------------------------|---------------------------------------|
| Third parties | 35,702 | 64,956 |
| Amount due from related parties (Note 29(c)) | — | 142 |
| | <u>35,702</u> | <u>65,098</u> |
| Less: provision for impairment | (800) | (800) |
| | <u>34,902</u> | <u>64,298</u> |

At 30 June 2019 and 31 December 2018, the ageing analysis of the trade receivables (including amounts due from related parties of trading in nature) based on recognition date of the gross trade receivables at the respective balance sheet dates were as follows:

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|--------------|-----------------------------------|---------------------------------------|
| 0-90 days | 28,242 | 62,617 |
| 91-180 days | 6,024 | 1,269 |
| 181-365 days | 424 | 230 |
| Over 1 year | 1,012 | 982 |
| | <u>35,702</u> | <u>65,098</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19 PREPAYMENTS AND OTHER RECEIVABLES

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|--|-----------------------------------|---------------------------------------|
| Included in non-current assets | | |
| Refundable prepayments for purchase of investments (a) | 12,768 | 97,498 |
| Prepayments for purchase of land use right (b) | – | 55,620 |
| Loans to employees | 10,969 | 8,121 |
| Deposit for guarantee for the Hangzhou Innovation Industrial Housing Project (b) | 5,562 | 5,562 |
| Long-term prepayment for game licenses and others, net | 224 | 1,777 |
| Others | – | 8,400 |
| | <u>29,523</u> | <u>176,978</u> |
| Less: provision for impairment (f) | (6,384) | (102,149) |
| | <u>23,139</u> | <u>74,829</u> |
| Included in current assets | | |
| Receivable from disposal of subsidiaries | 16,158 | 29,260 |
| Receivable from disposal of investments accounted for using the equity method | 6,208 | 10,258 |
| Receivable from disposal of prepayment for potential investment | 3,800 | 4,800 |
| Receivable from disposal of financial asset at fair value through profit or loss | – | 306 |
| Loans to third parties (c) | 14,829 | 8,411 |
| Loans to employees | 11,646 | 11,085 |
| Loan to related parties (d) (Note 29(c)) | 7,984 | 7,134 |
| Refundable prepayment for potential investments (a) | – | 7,909 |
| Deposit for purchase of land use right (e) | 3,244 | – |
| Deferred commission charges | 4,234 | 4,335 |
| Prepaid promotion expenses | 4,077 | 5,398 |
| Advance to suppliers | 2,244 | 5,421 |
| Insurance fees | 3,264 | 3,314 |
| Deposit | 1,163 | 667 |
| Individual income tax of RSUs | 22,461 | 22,461 |
| Prepaid rental and property management fee | 73 | 2,831 |
| VAT-in, not invoiced | 690 | 2,619 |
| Others | 3,039 | 3,791 |
| | <u>105,114</u> | <u>130,000</u> |
| Less: provision for impairment (f) | (8,531) | (27,078) |
| | <u>96,583</u> | <u>102,922</u> |
| | <u>119,722</u> | <u>177,751</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19 PREPAYMENTS AND OTHER RECEIVABLES – *continued*

- (a) The Group entered into a series of investment agreements with refundable terms if investment agreements failed to be reached. If the investment agreements are more likely to be reached than not based on management's intention and estimates at period end, the prepayments will be reclassified to non-current assets. As of 30 June 2019, management performed impairment assessment on the refundable prepayments of investments, including the ageing of the refundable prepayment, the current financial status of the selling shareholder, as well as probability of collection of the prepayment of the investments in the future. During the six months ended 30 June 2019, an impairment of RMB2,565 thousand (the year ended 31 December 2018: RMB93,749 thousand) against a refundable prepayment for investment due to the inherent uncertainty of the future collection was recognised. The net amount of the refundable prepayments for investments as of 30 June 2019 was RMB6,384 thousand (31 December 2018: RMB3,749 thousand).
- (b) In June 2018, the Group paid the government RMB55,620 thousand to purchase use right of certain land in Gongshu District, Hangzhou. In June 2019, the Group obtained the certificate for state land use right and transferred the prepayment of RMB55,620 thousand into land use right (Note 13).

In June 2018, a deposit amounting to RMB5,562 thousand was paid to the government to guarantee the development of the Innovation Industrial Housing Project on the land. The deposit is refundable when criteria including total investment amount, capital intensity, energy consumption per unit output and environmental protection requirement are met.

- (c) The balance represents the loans lent by the Group to certain third-party companies with terms within 1 year and interest rates ranging from 6% to 12% per annum.

During the six months ended 30 June 2019, the Group newly granted a one-year loan amounting to RMB10,000 thousand to a third-party company, which provided the factoring service to the customers from beauty clinics. The principal and interests at the rate of 12% per annum will be payable upon maturity.

- (d) The balance represents the loans lent by the Group to related parties with terms within 1 year and an interest rate ranging from 5% to 8% per annum. An impairment amounting to RMB5,389 thousand was provided against the loan to a certain related party as at 31 December 2018.
- (e) In June 2019, the Group entered into an offer to purchase the lease of an overseas land use right at a total consideration of US\$5,899 thousand. As at 30 June 2019, a deposit of US\$472 thousand (approximately RMB3,244 thousand) had been paid to an escrow account. The deposit is non-refundable except for the non-fulfillment of the closing condition or breach of the offer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19 PREPAYMENTS AND OTHER RECEIVABLES – *continued*

- (f) Provision for impairment includes the impairment on refundable prepayments for purchase of investments and loans granted to third parties and related parties. Set out below are the movements of loss allowance for prepayments and other receivables during the six months ended 30 June 2019:

| | Impairment on other receivables | | | Impairment on prepaid expenses | Total |
|---|---|---|--|--------------------------------------|---------------|
| | Refundable prepayments for purchase of investments | Loans to related parties and third parties | Total impairment on other receivables | | |
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Six months ended | | | | | |
| 30 June 2019 | | | | | |
| Opening loss allowances | 101,658 | 12,800 | 114,458 | 14,769 | 129,227 |
| Write off | (59,070) | (4,200) | (63,270) | (14,769) | (78,039) |
| Increase of the allowance (Note 19(a)) | 2,565 | – | 2,565 | – | 2,565 |
| Reversal of the allowance (Note 20(c)) | (38,842) | (74) | (38,916) | – | (38,916) |
| Currency translation difference | 73 | 5 | 78 | – | 78 |
| Closing loss allowance | <u>6,384</u> | <u>8,531</u> | <u>14,915</u> | <u>–</u> | <u>14,915</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|--|-----------------------------------|---------------------------------------|
| Included in non-current assets | | |
| Investments in venture capital funds (a) | 400,448 | 356,352 |
| Unlisted equity investments (c) | 496,931 | 471,844 |
| Contingent consideration (e) | 37,741 | 36,404 |
| Structured notes (d) | 10,337 | 9,941 |
| | <hr/> | <hr/> |
| | 945,457 | 874,541 |
| Included in current assets | | |
| Investment in wealth management products (b) | 1,007,768 | 871,871 |
| | <hr/> | <hr/> |
| | 1,953,225 | 1,746,412 |
| | <hr/> <hr/> | <hr/> <hr/> |

- (a) This represents the Group's investments in certain venture funds as a limited partner. Set out below are the movements of the Group's investments in such venture capital funds as at 30 June 2019 and 2018:

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2019 RMB' 000 | 2018 RMB' 000 |
| Investments in venture capital funds | | |
| Opening balance as at 1 January | 356,352 | 298,958 |
| Additions (i) | 8,750 | 26,869 |
| Disposals (ii) | (6,676) | (7,022) |
| Dividend received (ii) | (429) | – |
| Dividend income | 429 | – |
| Fair value gain recognised in consolidated statement of comprehensive income | 41,087 | 22,342 |
| Currency translation difference | 935 | 2,199 |
| | <hr/> | <hr/> |
| Closing balance as at 30 June | 400,448 | 343,346 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

- (i) During the six months ended 30 June 2019, the Group entered into an agreement to subscribe interests in a certain venture capital fund at a cash consideration of RMB25,000 thousand as a limited partner. The Group didn't have control or significant influence on the fund, and classified the investment as financial assets at fair value through profit or loss. The fund was established to invest in start-up companies and to obtain capital appreciation and investment income. As at 30 June 2019, the Group had paid RMB8,750 thousand to the fund.
- (ii) During the six months ended 30 June 2019, the Group received a cash payment of RMB7,105 thousand from certain venture capital funds, including the return of investment principal of RMB6,676 thousand and a dividend income of RMB429 thousand.
- (b) This represents RMB-denominated wealth management products with interest rates ranging from 2.60% to 4.85% per annum and maturity period within 1 year or revolving terms. These wealth management products are offered by large state-owned or reputable financial institutions in the PRC.
- (c) This represents the Group's investments in unlisted equity interests. Set out below are the movements of the Group's unlisted equity investments as at 30 June 2019 and 2018:

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2019 RMB' 000 | 2018 RMB' 000 |
| Unlisted equity investments | | |
| Opening balance as at 1 January | 471,844 | 332,862 |
| Additions (i) | 38,842 | 19,000 |
| Disposals | (1,722) | (18,145) |
| Reclassified as assets held for sale (Note 22) | (5,727) | – |
| Dividend received | (2,445) | (2,059) |
| Dividend income | 2,445 | 2,059 |
| Fair value gain/(loss) recognised in consolidated statement of comprehensive income | (6,368) | 216,066 |
| Other change | – | 18,228 |
| Currency translation differences | 62 | (336) |
| Closing balance as at 30 June | <u>496,931</u> | <u>567,675</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

(c) – *continued*

- (i) During the year ended 31 December 2014, the Group paid RMB70,000 thousand to subscribe 5% equity interest of potential investment in certain unlisted company which was principally engaged in online games. The amount was recorded as refundable prepayments for purchase of investments in prepayments and other receivables. As of 31 December 2018, management performed impairment assessment on the refundable prepayments of investment, including the ageing of the refundable prepayment as well as probability of collection of the prepayment of the investments in the future. As a result, an impairment of RMB70,000 thousand against the refundable prepayment for investment due to the inherent uncertainty of the future collection was recognised.

In June 2019, with the support from the selling shareholder and the invested company, the Group completed the shareholder registration of this investment and legally became the shareholder of 5% equity interest in the unlisted company. Therefore, the impairment of the refundable prepayment of the investment was reversed to the recoverable amount of RMB38,842 thousand (Note 19) and the prepayment was classified as financial asset at fair value through profit or loss at the fair value of RMB38,842 thousand.

- (d) This represented the Group's investments in structured notes. The product provides a potential return linked to the price of certain listed equity security at the predetermined valuation day in future. Set out below are the movements of the Group's investments in structured notes as at 30 June 2019 and 2018:

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2019 RMB' 000 | 2018 RMB' 000 |
| Investments in structured notes | | |
| Opening balance as at 1 January | 9,941 | 15,518 |
| Additions | – | 12,076 |
| Disposals | – | (3,751) |
| Fair value gain/(loss) recognised in consolidated statement of comprehensive income | 373 | (588) |
| Currency translation difference | 23 | 615 |
| Closing balance as at 30 June | <u>10,337</u> | <u>23,870</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

- (e) In December 2016, the Group acquired 27% equity interests of Jinhua Yibo Network Technology Co., Ltd. (“Yibo”) and Yibo International (Macau) Co., Ltd. (collectively “Yibo Group”), an independent third party group engaged in operation of web-based and mobile casual games for a total consideration of RMB63,000 thousand. In May 2018, the Group, the founder and the other shareholders of Yibo (collectively “Selling Shareholders”) entered into an agreement to dispose 20% equity interest to a third party (the “Buyer”), including 4.5% equity interest in Yibo held by the Group (the “Disposal”).

The Disposal was executed at a cash consideration of RMB40,500 thousand and an additional cash consideration of up to RMB253,575 thousand which may be received from 2019 to 2021. The additional consideration will be received i) in the event that certain pre-determined net profit of 2018, 2019 and 2020 is achieved by Yibo, or ii) in the event that the pre-determined net profit is not achieved, the Buyer exercise the option to ask the founder of Yibo to make the compensation to the Buyer (the “Option”). The settlement date of the additional consideration from 2019 to 2021 was no later than 15 May each year. Yibo did not achieve the 2018 net profit that was pre-determined in the original agreement. In May 2019, the Buyer and Selling Shareholders entered into an agreement to amend the settlement date of the additional consideration in 2019 from 15 May 2019 to 15 December 2019.

The Group received the aforementioned cash consideration of RMB40,500 thousand and recognised a gain of RMB36,750 thousand upon completion of the disposal. As of 31 December 2018, the fair value of the potential amount of all future cash collection was recognised as contingent consideration at the estimated amount to be RMB36,404 thousand by calculating the present value of future expected cash flows based on a discount rate and the probability of cash collection, including the probability of exercising the Option by the Buyer. The fair value of the contingent consideration was increased by RMB1,337 thousand for the six months ended 30 June 2019 (Note 8).

In addition, the Group recognised a fair value gain of RMB2,774 thousand for the remaining 22.5% of equity interest in Yibo for the six months ended 30 June 2019 (for the year ended 31 December 2018: a fair value gain of RMB186,691 thousand). The fair value of Yibo Group was RMB247,921 thousand as at 30 June 2019 (31 December 2018: RMB245,147 thousand).

21 CASH AND CASH EQUIVALENTS

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|--------------------------------------|-----------------------------------|---------------------------------------|
| Cash at bank and on hand | 464,042 | 300,250 |
| Short-term bank deposits | 78,123 | 103,751 |
| Cash at other financial institutions | 7,267 | 28,587 |
| | <hr/> | <hr/> |
| Total cash and cash equivalents | 549,432 | 432,588 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Maximum exposure to credit risk | 549,432 | 432,588 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22 ASSETS CLASSIFIED AS HELD FOR SALE

(i) Description

In June 2019, the Group entered into an agreement with third parties to sell its 100% equity interest in a certain subsidiary at a consideration of RMB1,000 thousand. The associated assets and liabilities of the subsidiary was consequently presented as held for sale in the financial statements as at 30 June 2019.

(ii) Assets and liabilities of the disposed subsidiary classified as held for sale

The following assets and liabilities in relation to the deemed disposal of the subsidiary were reclassified as held for sale at 30 June 2019. The assets were measured at the lower of their carrying amount and fair value less costs to sell at the time of reclassification, resulting in the recognition of a write down of RMB1,684 thousand in “other gain, net” (Note 8) in the statement of profit or loss.

| | As at 30 June 2019 RMB' 000 |
|--|-----------------------------------|
| Assets classified as held for sale: | |
| Cash and cash equivalents | 19 |
| Prepayments and other receivables | 2,049 |
| Financial assets at fair value through profit or loss | 5,727 |
| | <u>7,795</u> |
| Liabilities directly associated with assets classified as held for sale: | |
| Other payables and accruals | (2,604) |
| Income tax liabilities | (1,575) |
| Deferred income tax liabilities (Note 28) | (932) |
| | <u>(5,111)</u> |
| Net assets held for sale | <u>2,684</u> |
| Disposal consideration | <u>1,000</u> |
| Losses on re-measurement of assets classified as held for sale (Note 8) | <u><u>1,684</u></u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23 SHARE CAPITAL, SHARE PREMIUM AND SHARES HELD FOR RSU SCHEME – *continued*

- (b) During the six months ended 30 June 2019, the Company repurchased 14,070,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited. The total amount paid to repurchase these ordinary shares was HK\$39,135 thousand (approximately RMB33,698 thousand).

As at 30 June 2019, a total of 20,299,000 repurchased shares recorded as treasury stocks had been cancelled and deducted from the share capital and share premium within shareholders' equity.

- (c) In June 2019, the Company granted 10,000,000 ordinary shares to an independent trust nominee for the purpose of granting Post-IPO RSUs to the participants under Post-IPO RSU Scheme (Note 25(b)). The shares are yet to be issued as at 30 June 2019. The ordinary shares held for Post-IPO RSU scheme will be deducted from shareholders' equity once being issued as the directors are of the view that such shares are within the Company's control until the shares are vested unconditionally to the participants and hence are considered as treasury shares in substance (Note 25(d)).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24 OTHER RESERVES

| | Statutory Reserves | Share-based Compensation Reserve | Translation Differences | Step Acquisition | Change in the value of available-for-sale financial assets | Changes in ownership interests in subsidiaries without change of control | Contribution from a non-controlling interest | Total |
|--|--------------------|----------------------------------|-------------------------|------------------|--|--|--|-----------|
| | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| Opening balance at 1 January 2019 | 147,660 | 241,743 | 119,044 | 1,813 | - | - | 405 | 510,665 |
| Employees share option scheme and RSU schemes: | | | | | | | | |
| - value of employee services | - | 3,341 | - | - | - | - | - | 3,341 |
| Currency translation differences | - | - | 2,258 | - | - | - | - | 2,258 |
| Closing balance at 30 June 2019 | 147,660 | 245,084 | 121,302 | 1,813 | - | - | 405 | 516,264 |
| Opening balance at 31 December 2017 | 127,297 | 229,637 | 85,916 | 1,813 | 124,892 | - | 405 | 569,960 |
| Change in accounting policy | - | - | - | - | (124,892) | - | - | (124,892) |
| Opening balance at 1 January 2018 | 127,297 | 229,637 | 85,916 | 1,813 | - | - | 405 | 445,068 |
| Employees share option scheme and RSU schemes: | | | | | | | | |
| - value of employee services | - | 11,936 | - | - | - | - | - | 11,936 |
| Currency translation differences | - | - | 7,450 | - | - | - | - | 7,450 |
| Closing balance at 30 June 2018 | 127,297 | 241,573 | 93,366 | 1,813 | - | - | 405 | 464,454 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

25 SHARE-BASED PAYMENTS

(a) Share Options

The Company adopted two share option schemes, namely, the Pre-IPO Option Scheme and the Post-IPO Share Option Scheme, under which the directors of the Company may, at their discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein.

Movements in the number of 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 2019 | | 19,191,614 | | 2,852,000 | 22,043,614 |
| Exercised | US\$0.0340 | (1,437,500) | | - | (1,437,500) |
| Lapsed | US\$0.3500 | (27,239) | | - | (27,239) |
| At 30 June 2019 | | <u>17,726,875</u> | | <u>2,852,000</u> | <u>20,578,875</u> |
| At 1 January 2018 | | 33,465,137 | | 3,152,000 | 36,617,137 |
| Exercised | US\$0.1564 | (4,295,932) | HK\$3.5000 | (192,000) | (4,487,932) |
| Lapsed | US\$0.3500 | (2,206) | | - | (2,206) |
| Forfeited | US\$0.1619 | (16,088) | | - | (16,088) |
| At 30 June 2018 | | <u>29,150,911</u> | | <u>2,960,000</u> | <u>32,110,911</u> |

As at 30 June 2019, 20,578,875 share options were outstanding and exercisable (30 June 2018: 29,084,282).

During the six months ended 30 June 2019 and 2018, no share options were granted to any directors of the Company.

As a result of options exercised during the six months ended 30 June 2019, 1,437,500 ordinary shares (six months ended 30 June 2018: 4,487,932 ordinary shares) were issued by the Company (Note 23). The weighted average price of the shares at the time these options were exercised was HK\$2.3454 per share (30 June 2018: HK\$6.8652 per share).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

25 SHARE-BASED PAYMENTS – *continued*

(b) Restricted share units

The Company adopted two RSU schemes, namely, the Pre-IPO RSU Scheme and the Post-IPO RSU Scheme, under which the directors of the Company may, at their discretion, grant RSUs to any qualifying participants, subject to the terms and conditions stipulated therein.

On 3 June 2019, the Company granted 10,000,000 Post-IPO RSUs to its directors and employees with below vesting schedule, 50% shall vest on 30 September 2019 and 50% shall vest on 31 December 2019. The fair value of Post-IPO RSUs granted during the six months ended 30 June 2019 was HK\$1.95 per share (equivalent to approximately RMB1.70 per share).

Movements in the number of outstanding RSUs during the six months ended 30 June 2019 and 2018 are as follows:

| | Number of Pre-IPO RSUs | Number of Post-IPO RSUs | Total |
|---|---------------------------|----------------------------|-------------|
| At 1 January 2019 | – | – | – |
| Granted | – | 10,000,000 | 10,000,000 |
| At 30 June 2019 | – | 10,000,000 | 10,000,000 |
| Shares vested but not transferred to the grantees as at 30 June 2019 | | | – |
| | Number of Pre-IPO RSUs | Number of Post-IPO RSUs | Total |
| At 1 January 2018 | 3,305,205 | 6,781,294 | 10,086,499 |
| Vested and transferred | (3,305,205) | (6,349,700) | (9,654,905) |
| Forfeited | – | (18,700) | (18,700) |
| At 30 June 2018 | – | 412,894 | 412,894 |
| Shares vested but not transferred to the grantees as at 30 June 2018 | | | – |

During the six months ended 30 June 2019, totally 359,391 of the above granted RSUs were exercised (six months ended 30 June 2018: 3,505,437).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

25 SHARE-BASED PAYMENTS – *continued*

(c) Fair value of share options and RSUs

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

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

Fair value of share options

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

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

Other than the exercise price mentioned above, significant estimates on parameters, such as risk free rate, dividend yield and expected volatility, made by the directors in applying the Binominal Model, are also taken into consideration.

Fair value of RSUs

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

(d) Shares held for RSU Scheme

The 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

26 TRADE PAYABLES

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|---------------|-----------------------------------|---------------------------------------|
| Third parties | <u>3,173</u> | <u>5,049</u> |

As at 30 June 2019 and 2018, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on billing date were as follows:

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|--------------|-----------------------------------|---------------------------------------|
| 0-90 days | 1,910 | 3,150 |
| 91-180 days | 255 | 1,661 |
| 181-365 days | 965 | 203 |
| Over 1 year | 43 | 35 |
| | <u>3,173</u> | <u>5,049</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

27 OTHER PAYABLES AND ACCRUALS

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|--|-----------------------------------|---------------------------------------|
| Staff costs and welfare accruals | 10,782 | 14,764 |
| Marketing and administrative expense accruals | 6,439 | 7,184 |
| Audit expenses payable | 6,531 | 6,100 |
| VAT & Other tax liabilities | 1,801 | 4,397 |
| Consultancy fee | 2,056 | 1,527 |
| Human resource outsourcing service fee payable | 1,463 | 2,110 |
| Amount due to a related party (Note 29(c)) | | |
| – Deposit received from a potential disposal of an investment in a subsidiary (a) | – | 8,500 |
| – Advance received from an investment in a subsidiary (a) | 63,500 | – |
| – Others | – | 2,600 |
| Individual income tax of RSUs | 18,205 | 18,205 |
| Others | 13,385 | 5,805 |
| | <u>124,162</u> | <u>71,192</u> |

- (a) In June 2018, the Group entered into a non-binding term sheet with Beijing Weimeng Chuangke Investment Management Co., Ltd. (“Beijing Weimeng”) that has the intention to invest in Shanghai Benqu Internet Technology Company Limited (“Shanghai Benqu”), a subsidiary of which 80% equity interest was held by the Group. As at 31 December 2018, a refundable deposit of RMB8,500 thousand had been received by the Group and the investment agreements was yet to be reached.

In January 2019, the Group, Jinhua Ruian Investment Management Company Limited (“Jinhua Ruian”), a subsidiary of the Group holding 80% equity interest of Shanghai Benqu, entered into a Share Transfer Agreement with Beijing Weimeng. Pursuant to the agreement, 36% equity interest of Jinhua Ruian will be sold to Beijing Weimeng at a consideration of approximately RMB292,608 thousand.

The transaction was approved on the extraordinary general meeting held on 24 May 2019 and was completed in July 2019.

As at 30 June 2019, a refundable advance of RMB63,500 thousand had been received by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

28 DEFERRED INCOME TAX

The movements of deferred income tax assets/(liabilities), net are as follows:

| | Six months ended 30 June | |
|--|--------------------------|-------------------|
| | 2019 RMB' 000 | 2018 RMB' 000 |
| Opening balance as at 1 January | (71,591) | 30,838 |
| Recognized in the consolidated statements of comprehensive income | (95,935) | (72,865) |
| Reclassified to 'liabilities associated with assets held for sale' (Note 22) | 932 | – |
| Step acquisition of a subsidiary | – | (5,056) |
| Other change | – | (18,228) |
| Currency translation difference | 9 | (5) |
| | <u> </u> | <u> </u> |
| Closing balance as at 30 June | <u>(166,585)</u> | <u>(65,316)</u> |

As at 31 December 2018, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the undistributed profits of approximately RMB1,465,270 thousand as such earnings was expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation.

Management anticipated to remit the earnings of RMB72,956 thousand from the profit for the six months ended of 30 June 2019 of several PRC subsidiaries to Week8 Holdings (HK), which was subjected to a 10% withholding tax at a total amount of RMB7,296 thousand. In addition, due to the expansion of overseas business, management changed their estimation of overseas funding requirement and anticipated to remit an additional earnings of RMB900,000 thousand from the retained earnings of certain PRC subsidiaries to Week8 Holdings (HK) Limited, which was subject to a 10% withholding tax at the amount of RMB90,000 thousand.

As at 30 June 2019, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the undistributed profits of approximately RMB614,919 thousand. Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group for all the periods presented.

| Company | Relationship | Period of Related Party Relationship |
|---|--|--------------------------------------|
| Weibo Internet Technology (China) Co., Ltd. | Subsidiary of the non-controlling shareholder who has significant influence of the Group | Since 15 July 2010 |
| Beijing Weimeng Chuangke Investment Management Co., Ltd | Subsidiary of the non-controlling shareholder who has significant influence of the Group | Since 9 April 2014 |
| Winnine Interactive Co., Ltd. | Associate of subsidiary | Since 9 August 2016 |
| Wuhan Jiuxin Puhui Financial Information Services Co., Ltd. | Associate of subsidiary | Since 1 January 2017 |
| Emicro Capital (M) Sdn Bhd | Associate of subsidiary | Since 20 March 2018 |
| Engge Technology Holdings Limited | Associate of subsidiary | Since 2 January 2018 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 RELATED PARTY TRANSACTIONS – *continued*

(b) Significant transactions with related parties

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

| | Three Months Ended 30 June | | Six months ended 30 June | |
|---|----------------------------|-----------------|--------------------------|-----------------|
| Related party transactions | 2019 RMB'000 | 2018 RMB'000 | 2019 RMB'000 | 2018 RMB'000 |
| (i) Other revenue generated from related parties: | | | | |
| Winnine Interactive Co., Ltd. | 148 | 274 | 151 | 274 |
| (ii) Commission charges paid to related parties: | | | | |
| Weibo Internet Technology (China) Co., Ltd. | – | 0 | – | 3 |
| (iii) Loans granted to related parties: | | | | |
| Engge Technology Holdings limited | 553 | – | 1,517 | – |
| Emicro Capital (M) Sdn Bhd | – | 3,462 | – | 3,462 |
| | 553 | 3,462 | 1,517 | 3,462 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 RELATED PARTY TRANSACTIONS – *continued*

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

| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
|--|-----------------------------------|---------------------------------------|
| (i) Receivables from related parties | | |
| Trade receivables | | |
| Winnine Interactive Co., Ltd. | – | 138 |
| Weibo Internet Technology (China) Co., Ltd. | – | 4 |
| | <u>–</u> | <u>142</u> |
| Prepayments and other receivables | | |
| Wuhan Jiuxin Puhui Financial Information Services Co., Ltd. | – | 667 |
| Engge Technology Holdings Limited | 2,595 | 1,078 |
| | <u>2,595</u> | <u>1,745</u> |
| | | |
| | As at 30 June 2019 RMB' 000 | As at 31 December 2018 RMB' 000 |
| (ii) Payables to related parties | | |
| Other payables | | |
| Wuhan Jiuxin Puhui Financial Information Services Co., Ltd. | – | 2,600 |
| Beijing Weimeng Chuangke Investment Management Co., Ltd | 63,500 | 8,500 |
| | <u>63,500</u> | <u>11,100</u> |

30 CONTINGENCIES

The Group did not have any material contingent liabilities as at 30 June 2019 and 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 COMMITMENT

As at 30 June 2019 and 31 December 2018, the capital expenditure contracted but not provided for were nil. As at 30 June 2019 and 31 December 2018, the operating expenditure contracted but not provided for amounted to RMB3,082 thousand and RMB1,143 thousand, respectively.

32 EVENTS AFTER THE BALANCE SHEET DATE

- (i) In June 2019, Week8 Holdings (HK) Limited, a subsidiary of the Group, entered into an agreement to subscribe 19.3% of equity interests in an overseas company at the consideration of US\$1,100 thousand. The overseas company principally engaged in financial service in Puerto Rico. As at 30 June 2019, the investment consideration hadn't been paid the Group and the transaction was yet to be completed.
- (ii) In August 2019, Week8 Holdings (HK) Limited, a subsidiary of the Group, entered into an agreement to subscribe 20% of an overseas company at the consideration of RMB10,000 thousand. The overseas company principally engaged in property rental and provision of relevant service in the Philippines.
- (iii) In August 2019, Zhejiang Tonggu Software Technology Co., Ltd., a subsidiary of the Group, entered into an agreement with Zhejiang Sanfeng Construction Co., Ltd. ("**Zhejiang Sanfeng**") to engage Zhejiang Sanfeng for the provision of the engineering, procurement and construction work ("**EPC service**") for the Innovative Industrial Housing Project. The total contract price for the provision of the EPC Service is RMB289,000 thousand and the construction is expected to be completed around first quarter of 2022.