UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the month of June 2019

Commission File Number: 001-35729

YY INC.

Building B-1 North Block of Wanda Plaza
No. 79 Wanbo Er Road, Nancun Town
Panyu District, Guangzhou 511442
People's Republic of China
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YY INC.

By: /s/ Bing Jin
Name: Bing Jin
Title: Chief Financial Officer

Date: June 18, 2019

EXHIBIT INDEX

Exhibit No.	Description
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Exhibit 99.2	Management’s Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended March 31, 2018 and 2019
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Exhibit 99.1

YY INC. ANNOUNCES PROPOSED OFFERING OF US$850 MILLION CONVERTIBLE SENIOR NOTES

GUANGZHOU, CHINA – June 18, 2019: YY Inc. (Nasdaq: YY) ("YY" or the "Company"), a leading global social media platform, today announced the proposed offering (the "Notes Offering") of US$425 million in aggregate principal amount of convertible senior notes due 2025 (the "2025 Notes") and US$425 million in aggregate principal amount of convertible senior notes due 2026 (the "2026 Notes," and, together with the 2025 Notes, the "Notes"), subject to market and other conditions. The Company intends to grant the initial purchasers in the Notes Offering a 13-day option to purchase up to an additional US$75 million in aggregate principal amount of the 2025 Notes and US$75 million in aggregate principal amount of the 2026 Notes. The Company plans to use part of the net proceeds from the Notes Offering to pay the costs of the capped call transactions described below, and use the remainder of the proceeds for (i) global expansion-related initiatives, including infrastructure investment, personnel recruiting, sales and marketing and other efforts aimed at acquiring and servicing global users, (ii) video-based content offering expansion and enrichment, (iii) technology enhancement, and (iv) working capital and other general corporate purposes.

The Notes will be senior, unsecured obligations of YY. The 2025 Notes will mature on June 15, 2025 and the 2026 Notes will mature on June 15, 2026, unless repurchased, redeemed or converted in accordance with their terms prior to such date. The Company may not redeem the Notes prior to maturity, unless certain tax-related events occur. Holders of the Notes may require the Company to repurchase all or part of their Notes in cash on June 15, 2023, in the case of the 2025 Notes, and June 15, 2024, in the case of the 2026 Notes, or in the event of certain fundamental changes.

Prior to December 15, 2024, in the case of the 2025 Notes, or December 15, 2025, in the case of the 2026 Notes, the Notes will be convertible at the option of the holders only upon satisfaction of certain conditions and during certain periods. Holders may convert their Notes at their option at any time on or after December 15, 2024, in the case of the 2025 Notes, or December 15, 2025, in the case of the 2026 Notes, until the close of business on the second scheduled trading day immediately preceding the relevant maturity date. Upon conversion, the Company will pay or deliver to such converting holders, as the case may be, cash, the Company's American Depositary Shares ("ADSs"), each currently representing twenty Class A common shares of the Company, or a combination of cash and ADSs, at the Company's election. The interest rate, initial conversion rate and other terms of the Notes will be determined at the time of pricing of the Notes.

The Notes will be offered in the United States to qualified institutional buyers pursuant to Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). The Notes, the ADSs deliverable upon conversion of the Notes, if any, and the Class A common shares represented thereby have not been and will not be registered under the Securities Act or the securities laws of any other place, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

In connection with the Notes Offering, the Company intends to enter into capped call transactions relating to each series of the Notes with one or more of the initial purchasers and/or their respective affiliates and/or other financial institutions (the "Option Counterparties"). The capped call transactions are expected generally to reduce the potential dilution to existing holders of the Class A common shares and ADSs of the Company upon conversion of the relevant Notes and/or offset any cash payments that the Company is required to make in excess of the principal amount of the converted Notes, as the case may be, with such reduction and/or offset subject to a cap. If the initial purchasers exercise their option to purchase additional Notes, the Company expects to enter into additional capped call transactions with the Option Counterparties with respect to the relevant series of the Notes as to which the option was exercised. The Option Counterparties advised the Company that, in connection with establishing their initial hedges of the capped call transactions, the Option Counterparties or their respective affiliates expect to purchase the ADSs and/or enter into various derivative transactions with respect to the Company's ADSs concurrently with, or shortly after, the pricing of the Notes. This activity could increase (or reduce the size of any decrease in) the market price of the ADSs or the Notes at that time. If any such capped call transaction fails to become effective, whether or not the Notes Offering is completed, the Option Counterparty party thereto may unwind its hedge positions with respect to the ADSs, which could adversely affect the value of the ADSs and, if the Notes have been issued, the value of the Notes.

In addition, the Option Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to the ADSs and/or by purchasing or selling the ADSs or other securities of the Company in secondary market transactions following the pricing of the Notes and prior to the maturity of each series of the Notes. The Option Counterparties may engage in such activity during any observation period relating to a conversion of each series of the Notes. This activity could also cause or avoid an increase or a decrease in the market price of the ADSs or the Notes, which could affect noteholders' ability to convert the Notes and, to the extent the activity occurs during any observation period related to a conversion of the Notes, it could affect the number of ADSs and the value of the consideration that noteholders will receive upon conversion of such Notes.

This press release shall not constitute an offer to sell or a solicitation of an offer to purchase any securities, nor shall there be a sale of the securities in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful.

This press release contains information about the pending offerings of the Notes, and there can be no assurance that any of the offerings will be completed.

About YY Inc.

YY Inc. ("YY" or the "Company") is a leading global social media platform. The Company's highly engaged users contribute to a vibrant social community by creating, sharing, and enjoying a vast range of content and activities. YY enables users to interact with each other in real time through online live media and offers users a uniquely engaging and immersive entertainment experience. YY owns YY Live, a leading live streaming social media platform in China and Huya, a leading game live streaming platform in China. In addition, YY completed the acquisition of Bigo in March 2019. Bigo is a fast-growing global tech-driven social media company. Headquartered in Singapore, Bigo owns Bigo Live, a leading global live streaming platform outside of China; Like, a leading global short form video social platform; IMO, a global video communication platform, and other social applications. YY has created an online community for global video and live streaming users. YY Inc. was listed on the Nasdaq in November 2012.

Safe Harbor Statement

This announcement contains forward-looking statements. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates" and similar statements. YY may also make written or oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission ("SEC"), in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including but not limited to statements about YY's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following: YY's goals and strategies; YY's future business development, results of operations and financial condition; the expected growth of the online communication social platform market in China; expected changes in the revenue and certain cost or expense items; the expectation regarding the rate at which to gain active users, especially paying users; YY's ability to retain, increase, and monetize the user base; competition from companies in a number of industries; use of proceeds of this offering; fluctuations in general economic and business conditions in China and assumptions underlying or related to any of the foregoing. Further information regarding these and other risks is included in YY's filings with the SEC. All information provided in this press release and in the attachments is as of the date of this press release, and YY does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

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Exhibit 99.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended March 31, 2018 and 2019 in conjunction with the unaudited condensed consolidated financial statements and the notes thereto for the same period included in this offering memorandum, and the section titled "Operating and Financial Review and Prospects" in the 2018 Annual Report, which is incorporated by reference in this offering memorandum. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this offering memorandum.

Overview

YY is a leading global social media platform, offering users around the world a uniquely engaging and immersive experience across various video-based content categories, such as live streaming, short-form videos and video communication. Our global average mobile MAUs surpassed 400 million in the first quarter of 2019, of which over 75% came from overseas markets. With over 190 million average mobile MAUs engaged with our live streaming, short-form video and other services, and over 210 million average mobile MAUs on our *IMO* video communication platform, we have truly fostered a virtuous self-reinforcing ecosystem on a global scale.

With our pioneering business model in China, we have accumulated deep expertise in building and operating a vibrant video content ecosystem since our inception in 2005. Foreseeing the massive global opportunities, we began to expand overseas first by investing in Bigo Inc, or Bigo, in 2014, followed by the internationalization of *YY Live* and *Huya*, and lately by acquiring Bigo in March 2019. Our business model is not only successful in China, but has also been tested and replicated effectively on a global basis.

We pioneered the live streaming business model that has become widely adopted by leading industry players today, according to the Frost & Sullivan Report. Our business model optimizes the seamless integration of traffic generation, user engagement and monetization. While the basic use of our platforms is currently free to attract traffic, we monetize our user base mainly through virtual tips for live streaming. We believe that we will be able to capitalize on our large and highly engaged user base around the world by enriching our live streaming content categories, exploring additional monetization opportunities and diversifying our main revenue sources, such as advertising.

Our net revenues increased by 47.1% to RMB4,780.6 million (US$712.3 million) in the first quarter of 2019, from RMB3,248.9 million in the first quarter of 2018. Between 2017 and 2018, our net revenues increased by 36.0% from RMB11,594.8 million to RMB15,763.6 million (US$2,292.7 million). Net income attributable to common shareholders of YY Inc. was RMB3,104.3 million (US$462.6 million) in the first quarter of 2019, compared with RMB444.1 million in the first quarter of 2018. Net income attributable to common shareholders of YY Inc. was RMB2,493.2 million in 2017 and RMB1,642.0 million (US$238.8 million) in 2018.

Discussion of Selected Statements of Operations Items

Revenues

Starting from the first quarter of 2018, we re-classified our revenues from live streaming, online games, revenues from memberships, and other revenues (which mainly represented revenues from our online advertising revenues) to the categories of live streaming and other revenues. The revenue presentation for the year ended December 31, 2016 and 2017 has been retrospectively adjusted. Our live streaming revenues primarily comprised of revenues from *YY Live*, *Huya* and *Bigo Live*. Other revenues primarily include advertising revenues, and to a lesser extent revenues from online games, membership, online education, and financing income.

The following table sets forth the principal components of our total net revenues by amount and as a percentage of our total net revenues for the periods presented. Our revenues for the three months ended March 31, 2019 include revenues generated by Bigo from March 4, 2019 to March 31, 2019.

	For the year ended December 31,							For the three months ended March 31,				
	2016		2017		2018			2018		2019		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)											
Live streaming	7,027,227	85.7	10,670,954	92.0	14,877,667	2,163,867	94.4	3,032,035	93.3	4,485,020	668,289	93.8
Others	1,176,823	14.3	923,838	8.0	885,890	128,847	5.6	216,896	6.7	295,564	44,040	6.2
Total net revenues(1)	8,204,050	100.0	11,594,792	100.0	15,763,557	2,292,714	100.0	3,248,931	100.0	4,780,584	712,329	100.0

(1) Revenues are presented net of rebates and discounts.

Live streaming revenues. We generate live streaming revenues from the sales of in-channel virtual items used on our live streaming platforms, primarily including *YY Live*, *Huya* and *Bigo Live*. Users access content on our platforms free of charge, but are charged for purchases of virtual items.

The most significant factors that directly affect our live streaming revenues include the increase in the number of our paying users and ARPU:

- *The number of paying users*. Excluding the impact of Bigo, we had 6.9 million and 9.5 million paying users in the three months ended March 31, 2018 and 2019, respectively, for our live streaming services. We calculate the number of paying users during a given period as the cumulative number of registered user accounts that have purchased virtual items or other products and services on our live streaming platform at least once during the relevant period. We were able to achieve an increase in the number of paying users primarily due to a larger active user base and a higher conversion ratio of active users to paying users, and we expect that the number of our paying users will continue to grow in the future as we expand our services and products offerings and further monetize our existing platform.

- *ARPU.* Excluding the impact of Bigo, our ARPU for live streaming was RMB439.4 and RMB435.4 in the three months ended March 31, 2018 and 2019, respectively. The slight decrease resulted from our rapidly expanding paying user base and the higher contribution of revenues from

Huya, which generally had a lower ARPU compared to the YY segment. ARPU is calculated by dividing our total revenues from live streaming during a given period by the number of paying users for our live streaming services for that period. As we begin to generate revenues from an increasing variety of live streaming services, our ARPU may fluctuate from period to period depending on the mix of live streaming services purchased by our paying users.

Other significant factors that directly or indirectly affect our live streaming revenues include:

- our ability to increase our popularity by offering new and attractive content, products and services that allow us to monetize our live streaming platform;
- our ability to attract and retain a large and engaged user base; and
- our ability to attract and retain certain popular performers, guilds, professional game playing team and commentators.

We create and offer to users virtual items that can be used on various channels. Users can purchase consumable virtual items from us to show support for their favorite performers or time-based virtual items that provide users with recognized status, such as priority speaking rights or special symbols on the music and entertainment channels.

Other revenues. We generate other revenues mainly from advertising services, and to a lesser extent, our online game business, memberships and other services.

(i) Advertising revenues. Advertising revenues were generated from sales of various forms of advertising and provision of promotion campaigns on our live streaming platforms.

(ii) Online games revenues. We generate online games revenues from the sales of in-game virtual items used for games developed by us or by third parties under revenue-sharing arrangements on our platforms. Users play online games free of charge, but are charged for purchases of virtual items. The online games we currently offer are primarily web games that can be run from an internet browser and require an internet connection to play.

(iii) Membership revenues. We generated membership revenues from the membership subscription fees paid by our users. In our membership program, users pay a flat monthly subscription fee in order to become members, and in exchange, we give them access to various privileges and enhanced features on our channels, including additional video usage, priority entrance to certain live performances, and exclusive rights to access VIP avatars, VIP ring-tones, VIP fonts and VIP emoticons.

(iv) Others. We generated other revenues from our online education and financing business. Online education service consists of vocational training, language training and K-12 afterschool education courses and we generated revenue from course fee. We also generated revenues from financing businesses.

Cost of Revenues

Cost of revenues consists primarily of (i) revenue sharing fees and content costs including payments to various channel owners and performers, and content providers, (ii) bandwidth costs, (iii) salary and welfare, (iv) depreciation and amortization expense for servers, other equipment and intangibles directly related to operating the platform, (v) payment handling costs, (vi) share-based compensation, (vii) other taxes and surcharges, and (viii) other costs. We expect that our cost of revenues will increase in absolute amount as we further grow our user base and expand our revenue-generating services.

Operating Expenses

Our operating expenses consist of (i) research and development expenses, (ii) sales and marketing expenses, (iii) general and administrative expenses, and (iv) goodwill impairment. The following table sets forth the components of our operating expenses for the years indicated, both in absolute amounts and as percentages of our total net revenues. We expect our operating expenses to generally increase in absolute amount in the near future.

	For the Year Ended December 31,							For the Three Months Ended March 31,				
	2016		2017		2018			2018		2019		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)											
Operating expenses:												
Research and development	675,230	8.2	781,886	6.7	1,192,052	173,377	7.6	249,465	7.7	404,736	60,308	8.4
Sales and marketing	387,268	4.7	691,281	6.0	1,149,316	167,161	7.3	235,658	7.3	534,236	79,604	11.2
General and administrative	482,437	5.9	544,641	4.7	883,225	128,460	5.6	163,976	5.0	276,424	41,188	5.8
Goodwill impairment	17,665	0.2	2,527	0.0	—	—	—	—	—	—	—	—
Total operating expenses	1,562,600	19.0	2,020,335	17.4	3,224,593	468,998	20.5	649,099	20.0	1,215,396	181,100	25.4

Research and Development Expenses

Research and development expenses consist primarily of salaries and benefits and share-based compensation expenses for research and development personnel, rental expenses and depreciation of office premises and servers utilized by the research and development personnel. Research and development expenses generally increased in the past three years ended December 31, 2018 and between the three months March 31, 2018 and 2019, due to the need for additional research and development personnel to accommodate the growth of our business, especially the increase in AI-focused research personnel supporting the build-up of our AI capabilities. We expect our research and development expenses to increase in absolute amount since AI technology improvement has become one of our key strategies and we intend to retain existing research and development personnel and also hire new ones to, among other things, develop new series of applications for our platforms, improve technology infrastructure to further enhance user experience, and further develop enhanced features for mobile devices to reach more users. However, we also expect to be able to leverage the expertise of our established research and development team to achieve better efficiency.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of (i) advertising and promotion expenses, and (ii) salary and welfare for sales and marketing personnel. Our sales and marketing expenses generally increased over the past three years ended December 31, 2018 and between the three months ended March 31, 2018 and 2019, primarily reflecting increased marketing and promotional activities. We expect that our sales and marketing expenses will increase in absolute amount as we expect to increase our spending on promotional activities, particularly relating to the user acquisition for our multi-platform global expansion.

General and administrative expenses

General and administrative expenses consist primarily of (i) salary and welfare for general and administrative personnel, (ii) share-based compensation for management and administrative personnel, and (iii) professional service fees. Our general and administrative expenses generally increased over the past three years ended December 31, 2018 and between the three months ended March 31, 2018 and 2019 as our business expanded, primarily due to an increase in the share-based compensation. We expect our general and administrative expenses will generally increase in absolute amount in the near future as our business grows.

Goodwill Impairment

We have noted further impairment indicator for 100 Online as well as impairment indicator for Bilin Online in 2016. Based on the result of the impairment assessment, impairment charges of RMB17.7 million were recognized in 2016. In December 2017, we have identified impairment indicator for a subsidiary. Based on the results of the impairment assessment, an impairment charge of RMB2.5 million for the subsidiary was recognized.

Share-based Compensation Expenses

Our operating expenses include share-based compensation expenses as follows:

	For the Year ended December 31,				For the Three Months ended March 31,		
	2016	2017	2018		2018	2019	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands)						
Research and development expenses	78,816	122,348	225,173	32,750	54,467	70,607	10,521
Sales and marketing expenses	3,107	4,417	5,723	832	1,869	1,976	294
General and administrative expenses	59,469	88,137	342,790	49,857	36,563	94,877	14,137
Total	141,392	214,902	573,686	83,439	92,899	167,460	24,952

We grant stock-based award such as, but not limited to, share options, restricted shares, restricted share units and warrants to eligible employees, officers, directors, and non-employee consultants. Awards granted to employees, officers, and directors are initially accounted for as equity-classified awards, which are measured at the grant date fair value of the award and are recognized using the graded vesting method, net of estimated forfeitures, over the requisite service period, which is generally the vesting period. Awards granted to non-employees are initially measured at fair value on the grant date and periodically re-measured thereafter until the earlier of the performance commitment date or the date the service is completed and recognized over the period in which the service is provided.

Operating Income

Gain on deconsolidation and disposal of subsidiaries

In June 2016, we disposed 60% of the equity interest in Shanghai Beifu for a consideration of RMB3.5 million, and recognized a loss of RMB23.5 million. After the disposal, we retained 10% of the equity interest in Shanghai Beifu. In December 2016, we disposed 33.86% of the equity interest in Beijing Xingxue for a consideration of RMB118.5 million, and recognized an income of RMB127.4 million. After the disposal, we retained 31.14% of the equity interest in Beijing Xingxue. In February 2017, we disposed 46% the equity interest in Beijing Yunke Online, and recognized an income of RMB38.0 million.

Other income

Other income primarily consists of government grants in connection with our contributions to technology development, tax refund and investments in local business districts. These grants may not be recurring in nature.

Results of Operations

The following table sets forth a summary of our consolidated statements of operations for the periods indicated, both in absolute amounts and as percentages of our net revenues:

	For the Year ended December 31,							For the Three Months ended March 31,				
	2016		2017		2018			2018		2019		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)											
Consolidated statements of comprehensive income data:												
Net revenues:(1)(2)												
Live streaming	7,027,227	85.7	10,670,954	92.0	14,877,667	2,163,867	94.4	3,032,035	93.3	4,485,020	668,289	93.8
Others	1,176,823	14.3	923,838	8.0	885,890	128,847	5.6	216,896	6.7	295,564	44,040	6.2
Total net revenues	8,204,050	100.0	11,594,792	100.0	15,763,557	2,292,714	100.0	3,248,931	100.0	4,780,584	712,329	100.0
Cost of revenues	(5,103,430)	(62.2)	(7,026,402)	(60.6)	(10,017,134)	(1,456,932)	(63.5)	(2,015,797)	(62.0)	(3,160,325)	(470,903)	(66.1)
Gross profit	3,100,620	37.8	4,568,390	39.4	5,746,423	835,782	36.5	1,233,134	38.0	1,620,259	241,426	33.9
Operating expenses												
Research and development	(675,230)	(8.2)	(781,886)	(6.7)	(1,192,052)	(173,377)	(7.6)	(249,465)	(7.7)	(404,736)	(60,308)	(8.4)
Sales and marketing	(387,268)	(4.7)	(691,281)	(6.0)	(1,149,316)	(167,161)	(7.3)	(235,658)	(7.3)	(534,236)	(79,604)	(11.2)
General and administrative	(482,437)	(5.9)	(544,641)	(4.7)	(883,225)	(128,460)	(5.6)	(163,976)	(5.0)	(276,424)	(41,188)	(5.8)
Goodwill impairment	(17,665)	(0.2)	(2,527)	(0.0)	—	—	—	—	—	—	—	—
Total operating expenses	(1,562,600)	(19.0)	(2,020,335)	(17.4)	(3,224,593)	(468,998)	(20.5)	(649,099)	(20.0)	(1,215,396)	(181,100)	(25.4)
Gain on deconsolidation and disposal of subsidiaries	103,960	1.3	37,989	0.3	—	—	—	—	—	—	—	—
Other income	129,504	1.6	113,187	1.0	117,860	17,142	0.7	12,374	0.4	68,688	10,235	1.4
Operating income	1,771,484	21.6	2,699,231	23.3	2,639,690	383,926	16.7	596,409	18.4	473,551	70,561	9.9
Gain on deemed disposal and disposal of investments	25,061	0.3	45,861	0.4	16,178	2,353	0.1	—	—	—	—	—
Fair value loss on derivative liabilities	—	—	—	—	(2,285,223)	(332,372)	(14.5)	(11,868)	(0.4)	—	—	—
Gain on fair value changes of investments	—	—	—	—	1,689,404	245,714	10.7	426,547	13.1	2,649,843	394,839	55.4
Foreign currency exchange (losses)/gains, net	1,158	0.0	(2,176)	(0.0)	(514)	(75)	(0.0)	6,719	0.2	1,333	199	0.0
Interest expense	(81,085)	(1.0)	(32,122)	(0.3)	(8,616)	(1,253)	(0.1)	(2,019)	(0.1)	(6,219)	(927)	(0.1)
Interest income and investment income	67,193	0.8	180,384	1.6	485,552	70,621	3.1	92,191	2.8	148,289	22,096	3.1
Other non-operating expense	—	—	—	—	(2,000)	(291)	(0.0)	—	—	—	—	—
Income before income tax expenses	1,783,811	21.7	2,891,178	24.9	2,534,471	368,623	16.1	1,107,979	34.1	3,266,797	486,768	68.3
Income tax expenses	(280,514)	(3.4)	(415,811)	(3.6)	(477,707)	(69,480)	(3.0)	(148,245)	(4.6)	(123,971)	(18,472)	(2.6)
Income before share of income in equity method investments, net of income taxes	1,503,297	18.3	2,475,367	21.3	2,056,764	299,143	13.0	959,734	29.5	3,142,826	468,296	65.7
Share of income	8,279	0.1	33,024	0.3	58,933	8,571	0.4	9,179	0.3	7,156	1,066	0.1

in equity method investments, net of income taxes												
Net income	1,511,576	18.4	2,508,391	21.6	2,115,697	307,714	13.4	968,913	29.8	3,149,982	469,362	65.9
Less: Net (loss) income attributable to the non-controlling interest shareholders and the mezzanine classified non-controlling interest shareholders	(12,342)	(0.2)	(4,532)	(0.0)	(93,310)	(13,571)	(0.6)	5,384	0.2	29,549	4,403	0.6
Net income attributable to controlling interest of YY Inc.	1,523,918	18.6	2,512,923	21.7	2,209,007	321,285	14.0	963,529	29.7	3,120,433	464,959	65.3
Less: Accretion of subsidiaries' redeemable convertible preferred shares to redemption value	—	—	19,688	0.2	73,159	10,641	0.5	30,107	0.9	9,365	1,395	0.2
Cumulative dividend on subsidiary's Series A preferred shares	—	—	—	—	4,606	669	0.0	—	—	6,730	1,003	0.1
Deemed dividend to subsidiary's Series A preferred shareholders	—	—	—	—	489,284	71,163	3.1	489,284	15.1	—	—	—
Net income attributable to common shareholders of YY Inc.	1,523,918	18.6	2,493,235	21.5	1,641,958	238,812	10.4	444,138	13.7	3,104,338	462,561	64.9

(1) Net of rebates and discounts.

(2) From January 1, 2018, revenue presentation has been changed to live streaming and others. We also have retrospectively changed the revenue presentation for the years ended December 31, 2016 and 2017.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Net revenues

Net revenues increased by 47.1% to RMB4,780.6 million (US$712.3 million) in the three months ended March 31, 2019 from RMB3,248.9 million in the corresponding period of 2018, primarily driven by an increase in live streaming revenues, and the contribution from the consolidation of Bigo segment.

Live streaming. Live streaming revenues increased by 47.9% to RMB4,485.0 million (US$668.3 million) in the three months ended March 31, 2019 from RMB3,032.0 million in the corresponding period of 2018, primarily attributable to the continued live streaming revenues growth in YY and Huya segments and, to a lesser extent, the consolidation of the live streaming revenues of Bigo for most of the month of March 2019.

Other revenues. Other revenues increased by 36.3% to RMB295.6 million (US$44.0 million) in the three months ended March 31, 2019 from RMB216.9 million in the corresponding period of 2018, primarily driven by the increase in advertising revenues from Huya and Bigo segments.

Cost of revenues

Cost of revenues increased by 56.8% to RMB3,160.3 million (US$470.9 million) in the three months ended March 31, 2019 from RMB2,015.8 million in the corresponding period of 2018, mainly attributable to an increase in revenue-sharing fees and content costs to RMB2,524.7 million(US$376.2 million) in the three months ended March 31, 2019 from RMB1,621.0 million in the corresponding period of 2018. The increase in revenue-sharing fees and content costs paid to performers, guilds and content providers was in line with the increase in live streaming revenues for both YY and Huya segments, respectively. Bandwidth costs increased to RMB297.4 million (US$44.3 million) in the three months ended March 31, 2019 from RMB225.4 million in the corresponding period of 2018, primarily reflecting the increase in demands for bandwidth that came with the continued overseas user base expansion.

Operating expenses

Operating expenses were RMB1,215.4 million (US$181.1 million) in the three months ended March 31, 2019, as compared to RMB649.1 million in the corresponding period of 2018.

Research and development. Our research and development expenses increased by 62.2% from RMB249.5 million in the three months ended March 31, 2018 to RMB404.7 million (US$60.3 million) in the corresponding period of 2019. This increase was primarily due to increase in staff related expenses for AI research and development personnel.

Sales and marketing. Our sales and marketing expenses increased by 126.7% from RMB235.7 million in the three months ended March 31, 2018 to RMB534.2 million (US$79.6 million) in the corresponding period of 2019. This increase was primarily due to increased efforts in sales and marketing activities in overseas markets.

General and administrative. Our general and administrative expenses increased by 68.6% from RMB164.0 million in the three months ended March 31, 2018 to RMB276.4 million (US$41.2 million) in the corresponding period of 2019. This increase was primarily due to the increase in staff related expenses for general and administrative personnel.

Other income

Other income increased from RMB12.4 million in the three months ended March 31, 2018 to RMB68.7 million (US$10.2 million) in the corresponding period of 2019. Other income primarily consisted of government grants in connection with our contributions to technological research and development, as well as tax refund due to investments in local business districts.

Interest income and investment income

Interest income and investment income increased from RMB92.2 million in the three months ended March 31, 2018 to RMB148.3 million (US$22.1 million) in the corresponding period of 2019, primarily because of the issuance of the Series B-2 Preferred Shares and initial public offering of HUYA Inc. in 2018.

Gain on fair value change of investments

Gain on fair value change of investments increased from RMB426.5 million in the three months ended March 31, 2018 to RMB2,649.8 million (US$394.8 million) in the corresponding period of 2019, primarily due to remeasurement gain of our previously held interests in Bigo.

Income tax expense

We recorded income tax expenses of RMB124.0 million (US$18.5 million) in the three months ended March 31, 2019, compared to RMB148.2 million in the corresponding period of 2018. The effective tax rate in the first quarter of 2019 was significantly impacted by the gain on fair value change of investment in Bigo, as it was non-taxable for income tax purpose.

Net income

As a result of the foregoing, we had a net income attributable to common shareholders of YY Inc. of RMB3,104.3 million (US$462.6 million) in the first quarter of 2019 as compared to a net income attributable to common shareholders of YY Inc. of RMB444.1 million in the corresponding period of 2018.

Liquidity and Capital Resources

In recent years, we have financed our operations primarily through cash flows from operations, the proceeds from our initial public offering in November 2012, the proceeds from our convertible senior notes offering in March 2014 and the proceeds from our follow-on offering in August 2017. We expect to require cash to fund our ongoing operational needs, particularly our revenue sharing fees and content costs, salaries and benefits, bandwidth costs and potential acquisitions or strategic investments. We believe that our current cash and cash equivalents and the anticipated cash flow from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures needs for the next 12 months. However, we may require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to selectively pursue. If our existing cash resources are insufficient to meet our requirements, we may seek to sell equity or equity-linked securities, debt securities or borrow from banks.

In March 2014, we issued an aggregate of US$400.0 million 2.25% convertible senior notes due in 2019. The net proceeds from the sale of the notes were US$390.8 million. The notes bore interest at a rate of 2.25% per year, payable semiannually in arrears on April 1 and October 1 of each year, and such notes matured on April 1, 2019. On April 1, 2017, we repurchased for cash the notes of an aggregate principal amount of US$399.0 million. As of the date of this offering memorandum, no principal amount of the notes remain outstanding.

On January 19, 2017, we entered into a loan agreement with a bank, pursuant to which we borrowed a loan with a principal amount of US$30 million. The annualized interest rate of the loan is 3-month LIBOR plus 1.5%, accruing from draw-down. The draw-down of US$30 million took place on March 8, 2017 and have been repaid on March 1, 2018. Term deposit of RMB500 million was pledged as collateral for the loan until March 13, 2018.

On February 17, 2017, we entered into a loan agreement with a bank, pursuant to which we borrowed a loan with a total principal amount of US$60 million. The annualized interest rate of the loan is 3-month LIBOR, accruing from draw-down. The first draw-down of US$45 million took place on March 21, 2017 and the second draw-down of US$15 million took place on March 30, 2017. The loan shall be repaid before February 9, 2018. Term deposit of RMB500 million was pledged as collateral for the loan until February 23, 2018. On February 9, 2018, we repaid the loan with a total amount of US$60 million.

On February 28, 2019, we entered into a facility agreement with Goldman Sachs Lending Partners LLC, or Goldman Sachs. Subject to the terms of this agreement, Goldman Sachs agreed to make available to us a U.S. dollar term loan facility in an aggregate amount of up to US$100.25 million. In March 2019, we borrowed a loan amounting to US$100.25 million under this facility agreement. In April 2019, we have fully repaid such loan.

On May 16, 2017, HUYA Inc. entered into a series A preferred shares subscription agreement with its series A investors and pursuant to which, HUYA Inc. issued 22,058,823 series A preferred shares of HUYA Inc. at a price of US$3.4 per share for an aggregate consideration of US$75 million (equivalent to RMB509.7 million as of the issuance date). The issuance of the series A preferred shares was completed on July 10, 2017.

On August 21, 2017, we completed a secondary offering and received US$442.2 million in net proceeds, after deducting commissions and offering expenses.

On March 8, 2018, HUYA Inc. issued 64,488,235 shares of Series B-2 redeemable convertible preferred shares at a price of US$7.16 per share for cash consideration of US$461.6 million to Linen Investment Limited, a wholly owned subsidiary of Tencent Holdings Limited.

In May 2018, HUYA Inc., our majority-controlled subsidiary, successfully completed its initial public offering of 17,250,000 ADSs at a price of US$12.0 per ADS, including 2,250,000 ADSs offered pursuant to the underwriters' full exercise of their over-allotment options. Each HUYA Inc. ADS represents one Class A ordinary share of HUYA Inc. HUYA Inc. received net proceeds of US$190.1 million.

In June 2018, we invested US$272 million in the Series D round of financing of Bigo as the lead investor. We were then an existing shareholder of Bigo and had become its largest shareholder after the Series D financing.

In March 2019, we completed the acquisition of the remaining 68.3% of equity interest in Bigo from the other shareholders of Bigo, including Mr. David Xueling Li, our chairman of the board of directors and chief executive officer. Pursuant to the agreement, we paid US$343.1 million in cash and issued 38,326,579 Class B common shares and 305,127,046 Class A common shares to the selling shareholders of Bigo.

In April 2019, HUYA Inc. successfully completed a follow-on public offering, issuing 13,600,000 ADSs at a price of US$24.00 per ADS. We, as a selling shareholder, participated in the follow-on public offering and offered 4,800,000 ADSs. HUYA and we raised from such public offering approximately US$313.8 million in net proceeds after deducting underwriting commissions and the offering expenses payable.

As of December 31, 2016, 2017, 2018 and March 31, 2019, we had RMB1,579.7 million, RMB3,617.4 million, RMB6,004.2 million (US$873.3 million) and RMB9,837.3 million (US$1,465.8 million), respectively, in cash, cash equivalents and restricted cash.

As of March 31, 2019, our subsidiaries, VIEs, and VIE's subsidiaries located in the PRC held cash and cash equivalents in the amount of RMB6,458.0 million (US$962.3 million). Aggregate undistributed earnings and reserves of our subsidiaries, VIEs, and VIE's subsidiaries located in the PRC that are available for distribution to our company as of March 31, 2019 was RMB12,635.7 million (US$1,882.8 million). We would need to accrue and pay withholding taxes if we were to distribute funds from our subsidiaries in the PRC to our offshore subsidiaries. We do not intend to repatriate such funds in the foreseeable future, as we plan to use existing cash balance in the PRC for general corporate purposes.

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2016	2017	2018		2018	2019	
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands)						
Net cash provided by operating activities	2,421,135	3,718,452	4,464,814	649,379	780,276	966,079	143,949
Net cash (used in) provided by investing activities	(2,172,359)	(3,037,516)	(6,295,386)	(915,626)	(2,943,377)	1,502,650	223,903
Net cash provided by financing activities	10,651	1,392,525	4,167,270	606,105	2,695,180	1,379,037	205,482
Net increase in cash, cash equivalents and restricted cash	259,427	2,073,461	2,336,698	339,858	532,079	3,847,766	573,334
Cash, cash equivalents and restricted cash at the beginning of the period	1,318,155	1,579,743	3,617,432	526,134	3,617,432	6,004,231	894,658
Effect of exchange rates change on cash, cash equivalents and restricted cash	2,161	(35,772)	50,101	7,287	(62,994)	(14,729)	(2,193)
Cash, cash equivalents and restricted cash at end of the period	1,579,743	3,617,432	6,004,231	873,279	4,086,517	9,837,268	1,465,799

Operating Activities

Net cash used in or generated from operating activities consists primarily of our net income mitigated by non-cash adjustments, such as share-based compensation, depreciation of property and equipment and deferred taxes, and adjusted by changes in operating assets and liabilities, such as accounts receivable, prepayments and other assets, account payables, accrued liabilities and deferred revenue.

Net cash provided by operating activities amounted to RMB966.1 million (US$143.9 million) for the three months ended March 31, 2019. In the three months ended March 31, 2019, the difference between our net cash provided by operating activities and our net income of RMB3,150.0 million (US$469.4 million) was primarily due to a non-cash item adjustment in fair value change of long-term investments of RMB2,649.8 million (US$394.8 million) and a decrease in accrued liabilities and other payables of RMB167.5 million (US$25.0 million), partially offset by an increase in deferred revenue of RMB227.5 million (US$33.9 million), a non-cash item adjustment in share-based compensation of RMB181.8 million (US$27.1 million), a decrease in prepayments and other current assets of RMB117.6 million (US$17.5 million) and a non-cash item adjustment in amortization of acquired intangible assets and land use rights of RMB82.9 million (US$12.4 million).

Investing Activities

Net cash used in investing activities largely reflects placements of short-term deposits, purchases of property and equipment and other non-current assets in connection with the expansion and upgrade of our technology infrastructure, and our acquisitions of and investments in certain companies.

Net cash provided by investing activities amounted to RMB1,502.7 million (US$223.9 million) in the three months ended March 31, 2019. Net cash provided by investing activities primarily resulted from maturities of short-term deposit of RMB6,065.3 million (US$903.8 million), partially offset by placements of short-term deposits of RMB2,760.2 million (US$411.3 million) and acquisition of businesses, net of cash, cash equivalents and restricted cash acquired, of RMB1,387.8 million (US$206.8 million). The increase in cash provided by investing activities was mainly due to the maturities of short-term deposits.

Financing Activities

Net cash provided by financing activities was RMB1,379.0 million (US$205.5 million) in the three months ended March 31, 2019, primarily attributable to proceeds from bank borrowings.

Capital Expenditures

We made capital expenditures of RMB86.6 million (US$12.9 million) in the three months ended March 31, 2019. Our capital expenditures are primarily used to purchase office space, computers, servers, office furniture, operating rights, domain names and other assets.

Contractual Obligations

The following sets forth our contractual obligations as of March 31, 2019:

	Payments due by period				
	Total	Less than 1 year	1 - 2 years	3 - 5 years	More than 5 years
	(in thousands)				
Operating lease obligations[1] (in RMB)	348,777	126,096	104,421	118,260	—
Capital commitments[2] (in RMB)	94,815	57,845	26,890	10,077	3
Convertible senior notes[3] (in US$)	1,011	1,011	—	—	—

(1) Operating lease obligations refer to the lease of offices under operating lease agreements, where a significant portion of the risks and rewards of ownership are retained by the lessor. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the period of the lease, including any free lease periods. Operating lease obligations presented in this table reflected undiscounted cash payments of both leases recognised as lease liabilities on the unaudited interim condensed consolidated balance sheet and lease commitments not recognised as lease liabilities.

(2) Capital commitment refers to capital expenditures related to properties and additional investments in equity investments.

(3) The convertible senior notes were redeemable at the holders' option on April 1, 2017. US$399,000,000 aggregate principal amount of the notes were redeemed on April 1, 2017. We has accepted the repurchase and has forwarded cash in payment of the repurchase price to the paying agent for distribution to the holders who had exercised the option. Following the repurchase, US$1,000,000 aggregate principal amount of the notes remained outstanding and has been fully repaid as of the date of this offering memorandum.

Other than the obligations set forth above, we did not have any other long-term debt obligations, operating lease obligations, purchase obligations or other long-term liabilities as of March 31, 2019.

Exhibit 99.3

YY INC.

INDEX TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND MARCH 31, 2019 (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

	Note	As of December 31,	As of March 31,	
		2018	2019	2019
		RMB	RMB	US$ (Note2(c))
Assets				
Current assets				
Cash and cash equivalents		6,004,231	8,936,229	1,331,540
Restricted cash and cash equivalents		-	263,132	39,208
Short-term deposits		7,326,996	4,907,121	731,184
Restricted short-term deposits		-	637,907	95,051
Short-term investments		979,053	1,402,678	209,006
Accounts receivable, net		198,428	632,357	94,224
Amounts due from related parties	12	193,559	10,330	1,539
Financing receivables, net		768,343	704,451	104,966
Prepayments and other current assets	4	1,019,019	639,029	95,218
Total current assets		16,489,629	18,133,234	2,701,936
Non-current assets				
Long-term deposits		1,000,000	-	-
Deferred tax assets		70,834	113,059	16,846
Investments		4,591,524	1,436,281	214,013
Property and equipment, net		1,296,319	1,697,773	252,976
Land use rights, net		1,784,639	1,772,615	264,128
Intangible assets, net	5	74,685	3,533,432	526,498
Right-of-use assets, net (1)		-	266,728	39,744
Goodwill	3	11,763	12,497,140	1,862,132
Financing receivables, net		224,793	224,609	33,468
Other non-current assets		223,859	246,938	36,794
Total non-current assets		9,278,416	21,788,575	3,246,599
Total assets		25,768,045	39,921,809	5,948,535
Liabilities, mezzanine equity and shareholders' equity				
Current liabilities				
Convertible bonds		6,863	6,734	1,003
Accounts payable		114,589	235,556	35,099
Deferred revenue		951,616	1,210,396	180,355
Advances from customers		101,690	90,516	13,487
Income taxes payable		235,561	307,124	45,763
Accrued liabilities and other current liabilities	6	2,414,371	3,324,934	495,431
Amounts due to related parties	12	28,336	33,745	5,028
Lease liabilities due within one year(1)		-	103,350	15,400
Short-term loans	7	-	1,282,516	191,101
Total current liabilities		3,853,026	6,594,871	982,667
Non-current liabilities				
Lease liabilities (1)		-	172,138	25,649
Deferred revenue		91,710	129,876	19,352
Deferred tax liabilities		27,505	350,981	52,298
Total non-current liabilities		119,215	652,995	97,299
Total liabilities		3,972,241	7,247,866	1,079,966

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND MARCH 31, 2019 (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

	Note	As of December 31,	As of March 31,	
		2018	2019	2019
		RMB	RMB	US$ (Note 2(c))
Commitments and contingencies	14			
Mezzanine equity		418,673	420,525	62,660
Shareholders' equity				
Class A common shares (US$0.00001 par value; 10,000,000,000 and 10,000,000,000 shares authorized, 981,740,848 shares issued and outstanding as of December 31, 2018; 1,297,051,264 shares issued and 1,286,804,655 shares outstanding as of March 31, 2019, respectively)		59	80	12
Class B common shares (US$0.00001 par value; 1,000,000,000 and 1,000,000,000 shares authorized, 288,182,976 and 326,509,555 shares issued and outstanding as of December 31, 2018 and March 31, 2019, respectively)		21	24	4
Additional paid-in capital		11,168,866	19,048,058	2,838,249
Statutory reserves		101,725	101,725	15,157
Retained earnings		6,913,469	10,024,537	1,493,703
Accumulated other comprehensive income		336,152	228,389	34,031
Total YY Inc.'s shareholders' equity		18,520,292	29,402,813	4,381,156
Non-controlling interests		2,856,839	2,850,605	424,753
Total shareholders' equity		21,377,131	32,253,418	4,805,909
Total liabilities, mezzanine equity and shareholders' equity		25,768,045	39,921,809	5,948,535

(1) The Company has adopted ASC 842 "Leases" beginning January 1, 2019 using the optional transition method and prior periods were not restated. The only major impact of the standard is that assets and liabilities amounting to RMB145.2 million and RMB141.2 million, respectively, are recognized beginning January 1, 2019 for leased office space with terms of more than 12 months.

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2019
(All amounts in thousands, except share, ADS, per share and per ADS data)

	Note	For the three months ended March 31,		
		2018	2019	2019
		RMB	RMB	US$ (Note2(c))
Net revenues				
Live streaming		3,032,035	4,485,020	668,289
Others		216,896	295,564	44,040
Total net revenues		3,248,931	4,780,584	712,329
Cost of revenues (1)	8	(2,015,797)	(3,160,325)	(470,903)
Gross profit		1,233,134	1,620,259	241,426
Operating expenses (1)				
Research and development expenses		(249,465)	(404,736)	(60,308)
Sales and marketing expenses		(235,658)	(534,236)	(79,604)
General and administrative expenses		(163,976)	(276,424)	(41,188)
Total operating expenses		(649,099)	(1,215,396)	(181,100)
Other income		12,374	68,688	10,235
Operating income		596,409	473,551	70,561
Interest expense		(2,019)	(6,219)	(927)
Interest income and investment income		92,191	148,289	22,096
Foreign currency exchange gains, net		6,719	1,333	199
Gain on fair value changes of investments		426,547	2,649,843	394,839
Fair value loss on derivative liabilities		(11,868)	-	-
Income before income tax expenses		1,107,979	3,266,797	486,768
Income tax expenses	9	(148,245)	(123,971)	(18,472)
Income before share of income in equity method investments, net of income taxes		959,734	3,142,826	468,296
Share of income in equity method investments, net of income taxes		9,179	7,156	1,066
Net income		968,913	3,149,982	469,362
Less: Net income attributable to the non-controlling interest shareholders and the mezzanine equity classified non-controlling interest shareholders		5,384	29,549	4,403
Net income attributable to controlling interest of YY Inc.		963,529	3,120,433	464,959
Less: Accretion of subsidiaries' redeemable convertible preferred shares to redemption value		30,107	9,365	1,395
Cumulative dividend on subsidiary's Series A Preferred Shares		-	6,730	1,003
Deemed dividend to subsidiary's Series A Preferred shareholders		489,284	-	-
Net income attributable to common shareholders of YY Inc.		444,138	3,104,338	462,561
Foreign currency translation adjustments, net of nil tax		(119,187)	(107,763)	(16,057)
Comprehensive income attributable to the common shareholders of YY Inc.		324,951	2,996,575	446,504

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2019 (CONTINUED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

	Note	For the three months ended March 31,		
		2018	**2019**	**2019**
		RMB	**RMB**	**US$ (Note2(c))**
Net income per ADS*				
—Basic	11	6.97	44.93	6.69
—Diluted	11	6.86	44.55	6.64
Weighted average number of ADS used in calculating net income per ADS				
—Basic	11	63,694,535	69,097,090	69,097,090
—Diluted	11	64,713,421	69,640,885	69,640,885
Net income per common share*				
—Basic	11	0.35	2.25	0.33
—Diluted	11	0.34	2.23	0.33
Weighted average number of common shares used in calculating net income per common share				
—Basic	11	1,273,890,701	1,381,941,802	1,381,941,802
—Diluted	11	1,294,268,422	1,392,817,695	1,392,817,695

* Each ADS represents 20 common shares.

(1) Share-based compensation was allocated in cost of revenues and operating expenses as follows:

	Note	For the three months ended March 31,		
		2018	**2019**	**2019**
		RMB	**RMB**	**US$ (Note2(c))**
Cost of revenues		19,608	14,309	2,132
Research and development expenses		54,467	70,607	10,521
Sales and marketing expenses		1,869	1,976	294
General and administrative expenses		36,563	94,877	14,137

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2019
(All amounts in thousands, except share, ADS, per share and per ADS data)

	Class A common shares		Class B common shares								
	Number of shares	Amount RMB	Number of shares	Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Retained earnings RMB	Accumulated other comprehensive loss RMB	Total YY Inc.'s shareholders' equity RMB	Non-controlling interests RMB	Total shareholders' equity RMB
Balance as of December 31, 2017	945,245,908	57	317,982,976	23	5,339,844	62,718	5,218,110	(9,597)	10,611,155	101,704	10,712,859
Adoption of ASU 2016-01	-	-	-	-	-	-	87,802	(87,802)	-	-	-
Issuance of common shares for vested restricted share units	682,760	-	-	-	1	-	-	-	1	-	1
Class B common shares converted to Class A common shares	20,000,000	1	(20,000,000)	(1)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	112,507	-	-	-	112,507	-	112,507
Capital injection in subsidiaries from non-controlling interest shareholders	-	-	-	-	-	-	-	-	-	658	658
Acquisition of subsidiary's shares from mezzanine equity holders	-	-	-	-	(13,315)	-	-	-	(13,315)	-	(13,315)
Partial disposal of a subsidiary's interests to non-controlling interest shareholders	-	-	-		389,358	-	-	(529)	388,829	(34,081)	354,748
Components of comprehensive income											
Net income attributable to YY Inc. and non-controlling interest shareholders	-	-	-	-	-	-	963,529	-	963,529	4,027	967,556
Accretion of subsidiaries' redeemable convertible preferred shares to redemption value	-	-	-	-	-	-	(30,107)	-	(30,107)	(474)	(30,581)
Deemed dividend to subsidiary's Series A Preferred shareholders	-	-	-	-	-	-	(489,284)	-	(489,284)	(7,711)	(496,995)
Foreign currency translation adjustments, net of nil tax	-	-	-	-	-	-	-	(119,187)	(119,187)	-	(119,187)
Balance as of March 31, 2018	965,928,668	58	297,982,976	22	5,828,395	62,718	5,750,050	(217,115)	11,424,128	64,123	11,488,251

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2019 (CONTINUED)

(All amounts in thousands, except share, ADS, per share and per ADS data)

	Class A common shares		Class B common shares								
	Number of shares	Amount	Number of shares	Amount	Additional paid-in capital	Statutory reserves	Retained earnings	Accumulated other comprehensive income (loss)	Total YY Inc.'s shareholders' equity	Non-controlling interests	Total shareholders' equity
		RMB		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2018	981,740,848	59	288,182,976	21	11,168,866	101,725	6,913,469	336,152	18,520,292	2,856,839	21,377,131
Issuance of common shares for vested restricted share units	1,421,920	-	-	-	-	-	-	-	-	-	-
Issuance of common shares in connection with the acquisition of Bigo	305,127,046	21	38,326,579	3	7,704,396	-	-	-	7,704,420	-	7,704,420
Forfeiture of restricted shares	(1,485,159)	-	-	-	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	181,769	-	-	-	181,769	-	181,769
Issuance of a subsidiary's common shares for exercised share options	-	-	-	-	(6,973)	-	-	-	(6,973)	17,655	10,682
Components of comprehensive income	-										
Net income attributable to YY Inc. and non-controlling interest shareholders	-	-	-	-	-	-	3,120,433	-	3,120,433	29,549	3,149,982
Accretion of subsidiaries' redeemable convertible preferred shares to redemption value	-	-	-	-	-	-	(9,365)	-	(9,365)	(408)	(9,773)
Foreign currency translation adjustments, net of nil tax	-	-	-	-	-	-	-	(107,763)	(107,763)	(53,030)	(160,793)
Balance as of March 31, 2019	1,286,804,655	80	326,509,555	24	19,048,058	101,725	10,024,537	228,389	29,402,813	2,850,605	32,253,418

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2019
(All amounts in thousands)

	Note	For the three months ended March 31,		
		2018	2019	2019
		RMB	RMB	US$ (Note2(c))
Cash flows from operating activities				
Net cash provided by operating activities		780,276	966,079	143,949
Cash flows from investing activities				
Placements of short-term deposits		(5,338,720)	(2,760,181)	(411,280)
Maturities of short-term deposits		2,504,224	6,065,339	903,764
Placements of short-term investments		(98,000)	(490,001)	(73,012)
Cash paid for investments		(242,658)	(74,127)	(11,045)
Cash received from disposal of investments		213,028	141,875	21,140
Acquisition of businesses, net of cash, cash equivalents and restricted cash acquired		-	(1,387,840)	(206,795)
Loans to a related party	12	(20,000)	(170,000)	(25,331)
Payments to originate financing receivables		-	(462,678)	(68,941)
Principal collection from financing receivables		-	559,000	83,294
Cash flows from other investing activities		38,749	81,263	12,109
Net cash (used in) provided by investing activities		(2,943,377)	1,502,650	223,903
Cash flows from financing activities				
Capital contributions from mezzanine equity holders		2,919,112	100,536	14,980
Partial disposal of subsidiary’s interests to non-controlling interest shareholders		378,548	-	-
Proceeds from bank borrowings	7	-	1,278,601	190,517
Repayments of bank borrowings		(569,166)	-	-
Cash flows from other financing activities		(33,314)	(100)	(15)
Net cash provided by financing activities		2,695,180	1,379,037	205,482
Net increase in cash, cash equivalents and restricted cash		532,079	3,847,766	573,334
Cash, cash equivalents and restricted cash at the beginning of the year		3,617,432	6,004,231	894,658
Effect of exchange rate changes on cash, cash equivalents and restricted cash		(62,994)	(14,729)	(2,193)
Cash, cash equivalents and restricted cash at the end of the period		4,086,517	9,837,268	1,465,799
Supplemental disclosure of cash flows information:				
—Cash paid for interest, net of amounts capitalized		(2,796)	(4,687)	(698)
—Income taxes paid		(116,259)	(120,014)	(17,883)
Supplemental disclosures of non-cash investing and financing activities:				
—Acquisition of property and equipment		14,270	176,737	26,335
—Disposal of investments		12,140	17,790	2,651
—Common shares issued for the acquisition of Bigo		-	7,704,420	1,147,994

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

1. Organization and principal activities

(a) Organization and principal activities

YY Inc. (the "Company"), together with its subsidiaries, its variable interest entities ("VIEs", also refer to VIEs and their subsidiaries as a whole, where appropriate) (collectively, the "Group"), is a leading global social media platform, offering users around the world a uniquely engaging and immersive experience across various video-based products and services, such as live streaming, short-form videos and video communication.

In March 2019, the Company completed the acquisition of Bigo Inc ("Bigo"). Bigo is primarily engaged in the video and audio broadcast business all over the world. The Company paid US$343.1 million in cash and issued 305,127,046 Class A common shares and 38,326,579 Class B common shares of the Company to Bigo's other shareholders. The details of this acquisition are disclosed in Note 3 "Business combination".

(b) Initial Public Offering

The Company completed its initial public offering ("IPO") on November 21, 2012 on the NASDAQ Global Market.

(c) Principal subsidiaries and VIEs

The details of the principal subsidiaries and VIEs through which the Company conducts its business operations as of March 31, 2019 are set out below:

Name	Place of incorporation	Date of incorporation or acquisition	% of direct or indirect economic ownership	Principal activities
Principal subsidiaries				
Duowan Entertainment Corporation ("Duowan BVI")	British Virgin Islands ("BVI")	November 6, 2007	100%	Investment holding
Huanju Shidai Technology (Beijing) Co., Ltd. ("Beijing Huanju Shidai" or "Duowan Entertainment")	PRC	March 19, 2008	100%	Investment holding
Guangzhou Huanju Shidai Information Technology Co., Ltd. ("Guangzhou Huanju Shidai")	PRC	December 2, 2010	100%	Software development
Engage Capital Partners I, L.P. ("Engage L.P.")	Cayman Islands	March 23, 2015	93.5%	Investment
HUYA Inc. ("Huya")	Cayman Islands	March 30, 2017	43.9%	Investment holding
Guangzhou Huya Technology Co., Ltd. ("Huya Technology")	PRC	June 16, 2017	43.9%	Software development
Hago Singapore Pte. Ltd. ("Hago Singapore")	Singapore	May 7, 2018	100%	Internet value added services
Bigo	Cayman Islands	March 4, 2019	100%	Investment holding
Bigo Technology Pte. Ltd. ("Bigo Singapore")	Singapore	March 4, 2019	100%	Investment holding, operation of live streaming platform
Bigo (Hong Kong) Limited ("Bigo HK")	Hong Kong	March 4, 2019	100%	Investment holding
Guangzhou BaiGuoYuan Information Technology Co., Ltd. ("BaiGuoYuan Technology")	PRC	March 4, 2019	100%	Software development and provision of information technology services

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

1. Organization and principal activities (continued)

(c) Principal subsidiaries and VIEs (continued)

Name	Place of incorporation	Date of incorporation or acquisition	% of direct or indirect economic ownership	Principal activities
Principal VIEs				
Guangzhou Huaduo Network Technology Co., Ltd. ("Guangzhou Huaduo")	PRC	April 11, 2005	100%	Holder of internet content provider licenses and internet value added services
Zhuhai Huanju Interactive Entertainment Technology Co., Ltd. ("Zhuhai Huanju Interactive")	PRC	May 4, 2015	100%	Software development
Shanghai Yilian Equity Investment Partnership (LP) ("Shanghai Yilian")	PRC	June 23, 2015	93.5%	Investment
Guangzhou Huanju Microfinance Co., Ltd. ("Guangzhou Microfinance")	PRC	January 11, 2016	100%	Financing services
Guangzhou Huya Information Technology Co., Ltd. ("Guangzhou Huya")	PRC	August 10, 2016	43.9%	Holder of internet content provider licenses and internet value added services
Guangzhou Yilianyixing Investment Partnership (LP) ("Guangzhou Yilianyixing")	PRC	June 28, 2017	99%	Investment
Guangzhou BaiGuoYuan Network Technology Co., Ltd. ("Guangzhou BaiGuoYuan")	PRC	March 4, 2019	100%	Holder of internet content provider licenses and internet value added services

1. Organization and principal activities (continued)

(d) Variable Interest Entities

To comply with PRC laws and regulations that prohibit or restrict foreign ownership of companies that provide internet-content, the Group's major operations in the PRC are conducted primarily through its principal VIEs Guangzhou Huaduo, Guangzhou Huya and Guangzhou BaiGuoYuan, which hold the internet value-added service license and approvals to provide such internet services in the PRC. VIE agreements amongst Beijing Huanju Shidai, Guangzhou Huaduo and its nominee shareholders and VIE agreements among of Huya Technology, Guangzhou Huya and its nominee shareholders have been disclosed in the audited financial statements for the year ended December 31,2018. The VIE agreements related to Bigo's business is discussed below.

VIE agreements amongst BaiGuoYuan Technology, Guangzhou BaiGuoYuan and its nominee shareholders

The following is a summary of the contractual arrangements entered among BaiGuoYuan Technology, Guangzhou BaiGuoYuan and its nominee shareholders.

- Exclusive Business Cooperation Agreement

Under the exclusive business cooperation agreement between BaiGuoYuan Technology and Guangzhou BaiGuoYuan, BaiGuoYuan Technology has the exclusive right to provide Guangzhou BaiGuoYuan technology support, business support and consulting services related to the services provided by Guangzhou BaiGuoYuan, the scope of which is to be determined by BaiGuoYuan Technology from time to time. BaiGuoYuan Technology owns the exclusive intellectual property rights created as a result of the performance of this agreement. BaiGuoYuan Technology receives substantially all of the economic interest returns generated by Guangzhou BaiGuoYuan. The term of this agreement will not expire unless with BaiGuoYuan Technology's written confirmation to terminate the agreement.

- Exclusive Option Agreement

The parties to the exclusive option agreement are BaiGuoYuan Technology, Guangzhou BaiGuoYuan and each of the shareholders of Guangzhou BaiGuoYuan. Under the exclusive option agreement, each of the shareholders of Guangzhou BaiGuoYuan irrevocably granted BaiGuoYuan Technology or its designated representative(s) an exclusive option to purchase, to the extent permitted under the PRC laws, all or part of his or its equity interests in Guangzhou BaiGuoYuan. BaiGuoYuan Technology or its designated representative(s) have sole discretion as to when to exercise such options, either in part or in full. Without BaiGuoYuan Technology's prior written consent, Guangzhou BaiGuoYuan's shareholders shall not sell, transfer, mortgage or otherwise dispose their equity interests in Guangzhou BaiGuoYuan. The term of this agreement is ten years and may be extended at BaiGuoYuan Technology's sole discretion.

- Powers of Attorney

Pursuant to the irrevocable power of attorney executed by each shareholder of Guangzhou BaiGuoYuan, each such shareholder appointed BaiGuoYuan Technology as its attorney-in-fact to exercise such shareholders' rights in Guangzhou BaiGuoYuan, including, without limitation, the power to vote on its behalf on all matters of Guangzhou BaiGuoYuan requiring shareholders' approval under the PRC laws and regulations and the articles of association of Guangzhou BaiGuoYuan. Each power of attorney will remain in force until the shareholder ceases to hold any equity interest in Guangzhou BaiGuoYuan.

- Share Pledge Agreement

Pursuant to the share pledge agreement between BaiGuoYuan Technology and the shareholders of Guangzhou BaiGuoYuan, the shareholders of Guangzhou BaiGuoYuan have pledged all of their equity interests in Guangzhou BaiGuoYuan to BaiGuoYuan Technology to guarantee the performance by Guangzhou BaiGuoYuan and its shareholders' performance of their respective obligations under the exclusive business cooperation agreement, exclusive option agreement and powers of attorney. If Guangzhou BaiGuoYuan and/or its shareholders breach their contractual obligations under those agreements, BaiGuoYuan Technology, as pledgee, will be entitled to voting right and the right to sell the pledged equity interests.

1. Organization and principal activities (continued)

(d) Variable Interest Entities (continued)

Through the aforementioned contractual agreements, Guangzhou BaiGuoYuan is considered a VIE in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP") because the Company, through BaiGuoYuan Technology, has the ability to:

- exercise effective control over Guangzhou BaiGuoYuan;
- receive substantially all of the economic benefits and residual returns, and absorb substantially all the risks and expected losses from Guangzhou BaiGuoYuan as if it was its sole shareholder; and
- have an exclusive option to purchase all of the equity interests in Guangzhou BaiGuoYuan.

2. Principal accounting policies

(a) Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements as of December 31, 2018 and for the year ended December 31, 2018, except for the newly adopted leasing standard. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period.

The preparation of the unaudited interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the recorded amounts reported therein. A change in facts or circumstances surrounding the estimate could result in a change to estimates and impact future operating results.

The unaudited interim condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the unaudited interim condensed consolidated financial statements have read or have access to the audited consolidated financial statements as of December 31, 2018 and for the year ended December 31, 2018. The condensed consolidated balance sheet at December 31, 2018 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by U.S. GAAP. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2018 and for the year ended December 31, 2018.

(b) Consolidation

The Group's unaudited interim condensed consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs for which the Company or its subsidiary is the primary beneficiary. All transactions and balances among the Company, its subsidiaries and VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiaries are the primary beneficiary, the Company considered whether it has the power to direct activities that are significant to the VIEs economic performance, and also the Company's obligation to absorb losses of the VIEs that could potentially be significant to the VIEs or the right to receive benefits from the VIEs that could potentially be significant to the VIEs. Beijing Huanju Shidai, Bilin Changxiang Information Technology Co., Ltd., Huya Technology, Guangzhou 100 Education Technology Co., Ltd., BaiGuoYuan Technology and ultimately the Company hold all the variable interests of the VIEs and have been determined to be the primary beneficiary of the VIEs.

2. Principal accounting policies (continued)

(c) Convenience translation

Translations of amounts from RMB into US$ for the convenience of the reader were calculated at the noon buying rate of US$1.00 = RMB 6.7112 on March 29, 2019 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

(d) Cash and cash equivalents

As of March 31, 2019, cash, cash equivalents and restricted cash presented in the unaudited interim condensed consolidated statement of cash flows is 9,837,268, including cash and cash equivalents of RMB8,936,229, restricted cash and cash equivalents of RMB263,132 and restricted short-term deposits of RMB637,907 on the unaudited interim condensed consolidated balance sheet, respectively.

(e) Leasing

The Group leases facilities in the PRC under non-cancellable operating leases expiring on different dates. On January 1, 2019, the Company adopted ASU No. 2016-02 (Topic 842) “Leases” using the optional transition method. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting under Topic 840. Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases. A contract is or contains a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. The Company determines whether a contract conveys the right to control the use of an identified asset for a period of time by assessing whether the Company has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

The only major impact of the adoption of the standard is that assets and liabilities amounting to RMB145.2 million and RMB141.2 million, respectively, are recognized beginning January 1, 2019 for leased office space with terms of more than 12 months. The Company accounts for short-term leases with terms less than 12 months in accordance with ASC 842-20-25-2 to recognize the lease payments in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred.

Operating leases are included in operating lease right-of-use assets, current lease liabilities and non-current lease liabilities on the unaudited interim condensed consolidated balance sheets.

(i) Right-of-use assets

Right-of-use assets are initially measured at the present value of the lease payments. Amortization of the right-of-use assets is made over the lease term on a generally straight-line basis. The weighted average lease terms of the right-of-use assets was 3.22 years.

(ii) Lease liabilities

Lease liabilities are lessees’ obligations to make the lease payments arising from a lease, measured on a discounted basis.

As a lessee, the discount rate for the lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the lessee is required to use its incremental borrowing rate. A weighted average incremental borrowing rate of 4.94% was adopted at commencement date in determining the present value of lease payments.

For the three months ended March 31, 2019, operating lease cost and short-term lease cost were RMB16,838 and RMB818, respectively. There were no other lease cost other than operating lease cost and short-term lease cost for the three months ended March 31, 2019. For the 3 months ended March 31, 2019, cash paid for operating leases included in operating cash flows was RMB26,349.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

2. Principal accounting policies (continued)

(e) Leasing (continued)

A maturity analysis of the Company's operating lease liabilities and reconciliation of the undiscounted cash flows to the operating lease liabilities recognized on the unaudited interim condensed consolidated balance sheet was as below:

	Office rental **RMB**
The remainder of 2019	84,011
2020	98,106
2021	66,460
2022	35,450
2023 and after	20,252
Total undiscounted cash flows	304,279
Less: imputed interest	(28,791)
Present value of lease liabilities	275,488

(f) Share-based compensation

The Group grants stock-based award, such as, but not limited to, share options, restricted shares, restricted share units of the Company, share option, restricted share units and ordinary shares of the Company's subsidiaries to eligible employees, officers, directors, and non-employee consultants.

The Group's share-based awards mainly include share-based awards of YY as well as share-based awards of Huya.

Upon the acquisition of Bigo, Class A common shares are issued for the replacement awards to Bigo's employees to replace their original share-based awards, namely restricted shares. In determining the fair value of restricted share granted to Bigo's employees, the fair value of the underlying shares of YY on the grant dates is applied. The grant date fair value of restricted share is based on stock price of YY in the NASDAQ Global Market.

2. Principal accounting policies (continued)

(g) Statutory reserves

The Group did not make any appropriation to its general reserve fund, statutory surpluses fund, discretionary surplus fund, and the staff bonus and welfare fund for the three months ended March 31, 2018 and 2019, respectively.

(h) Segment reporting

Operating segments are defined as components of an enterprise engaging in businesses activities for which separate financial information is available that is regularly evaluated by the Group's chief operating decision makers ("CODM") in deciding how to allocate resources and assess performance. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews segment results when making decisions about allocating resources and assessing performance of the Group.

(i) Recently issued accounting pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13: Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04: Simplifying the Test for Goodwill Impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this standard will remove, modify and add certain disclosures under ASC Topic 820, Fair Value Measurement, with the objective of improving disclosure effectiveness. ASU 2018-13 will be effective for the Group's fiscal year beginning January 1, 2020, with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. The Company does not expect ASU 2018-13 to have a material impact to the Company's consolidated financial statements.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

3. Business combination

Acquisition of Bigo

Immediately prior to this acquisition, the Company held 31.7% of equity interest of Bigo, a company which is primarily engaged in the video and audio broadcast business through its live-streaming applications and platforms all over the world. The Company had a contingent redemption right on its investment in Bigo, therefore the interest held by the Company did not meet the definition of in-substance common stock under ASC 323. As the investment in Bigo did not have readily determinable fair value, it was accounted for as an investment at cost less impairments, adjusted by observable price changes.

In February 2019, the Group entered into a share purchase agreement with Bigo and its shareholders. Under the agreement, the Group agreed to purchase all outstanding shares of Bigo that were not already owned by the Group. Pursuant to the agreement, the Company paid US$343.1 million in cash and issued 305,127,046 Class A common shares and 38,326,579 Class B common shares of the Company to Bigo's other shareholders. In addition, the Company has also issued 8,761,450 Class A common shares for future grants to employees as share-based awards. The acquisition was completed on March 4, 2019. The Group believed that the acquisition of Bigo helped the Group create enhanced live streaming content, expand global footprint and offer world-class user experiences for global user community. Upon the completion of the acquisition, Bigo became a wholly-owned subsidiary of the Group.

The following table summarizes the components of the purchase consideration transferred based on the closing price of the Company's common share as of the acquisition date:

	As of acquisition date RMB
Cash	2,300,196
Fair value of common shares issued	7,704,420
Fair value of previously held equity interest in Bigo	5,697,154
Elimination of preexisting amounts due from Bigo	323,002
Total consideration	16,024,772

The fair value of common shares issued above does not include post-acquisition share-based compensation amounting to RMB590,346. Out of the 305,127,046 Class A common shares issued, 38,042,760 shares are for the replacement awards to Bigo's employees to replace their original share-based awards. The post-acquisition share-based compensation of RMB590,346 are share-based compensation subject to continuous employment and will be recognized as share-based compensation expenses over the remaining required service period.

Immediately before the acquisition, the amounts due from Bigo to the Company amounted to RMB323,002. This amount due from Bigo was effectively eliminated upon the acquisition. The amount of the preexisting amounts due from Bigo of RMB323,002 was included as part of the consideration.

In accordance with ASC 805, the Company's previously held equity interest in Bigo was remeasured to fair value on the acquisition date, and a re-measurement gain of RMB2,669,334 was recognized as gain on fair value changes of investments. Acquisition-related costs of RMB27,162 was recognized as general and administrative expenses.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

3. Business combination (continued)

Acquisition of Bigo (continued)

The acquisition was accounted for as a business combination. The Group made estimates and judgements in determining the fair value of the assets acquired and liabilities assumed with the assistance from an independent valuation firm. The consideration was allocated on the acquisition date as follows:

	As of acquisition date RMB	Amortization period
Net tangible assets acquired:		
-Cash and cash equivalents, restricted cash and cash equivalents and restricted short-term deposits	912,356	
-Accounts receivables	386,517	
-Other current assets	52,432	
-Property and equipment, net	294,030	
-Other non-current assets	174,837	
Identifiable intangible assets acquired:		
-Trademark	2,400,354	10 years
-User Base	1,027,191	3 years
-Non-compete agreement	81,129	1 year
-Others	6,195	
Accrued liabilities and other liabilities	(1,425,777)	
Deferred tax liabilities	(316,859)	
Goodwill	12,432,367	
Total	16,024,772	

The goodwill was mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under U.S. GAAP, and mainly comprised (a) the assembled work force and (b) the expected future growth, enhancing world-class user experiences and expansion in global markets as a result of the synergy resulting from the acquisition. The goodwill recognized was not expected to be deductible for income tax purpose.

Pro forma information of the acquisition

The following unaudited pro forma information summarizes the results of operations for the three month ended March 31, 2019 of the Company as if the acquisition had occurred on January 1, 2018. The unaudited pro forma information includes: (i) amortization associated with estimates for the acquired intangible assets and corresponding deferred tax liability; (ii) recognition of the post-combination share-based compensation; (iii) removal of the transaction costs related to the acquisition; (iv) removal of the remeasurement gain of YY's previously held interests in Bigo; (v) removal of fair value loss on derivative liabilities related to Bigo's preferred shares; (vi) elimination of transaction between Bigo and the Company and (vii) the associated tax impact on these unaudited pro forma adjustments. The following pro forma financial information is presented for informational purpose only and is not necessarily indicative of the results that would have occurred had the acquisition been completed on January 1 2018, nor is it indicative of future operating results.

	For the three months ended March 31, 2019 RMB
Pro forma net revenues	5,441,913
Pro forma net income	215,994

The amounts of revenues and earnings of Bigo since the acquisition date are disclosed in Note 16 "Segment Reporting".

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

4. Prepayments and other current assets

	December 31, 2018 RMB	March 31, 2019 RMB
Prepayments and deposits to vendors and content providers	183,293	188,900
Loans to third parties	180,964	90,467
Value added taxes to be deducted	69,563	86,586
Receivables from payment platforms	112,061	64,725
Interests receivable	218,553	48,581
Rental and other deposits	22,457	32,246
Employee advances	11,536	19,380
Receivables from disposal of investments	59,255	17,790
Amounts receivable from issuance of a subsidiary's preferred shares	102,951	-
Others	58,386	90,354
Total	1,019,019	639,029

5. Intangible assets, net

The following table summarizes the Group's intangible assets:

	December 31, 2018 RMB	March 31, 2019 RMB
Gross carrying amount		
Trademark	-	2,410,593
User base	-	1,031,572
Non-compete agreement	-	81,475
Operating rights	67,080	67,080
Software	39,535	45,481
License	32,000	32,000
Domain names	26,819	26,855
Technology	18,094	17,928
Total of gross carrying amount	183,528	3,712,984
Less: accumulated amortization		
Trademark	-	(20,086)
User base	-	(35,327)
Non-compete agreement	-	(6,787)
Operating rights	(48,451)	(53,205)
Software	(28,406)	(31,532)
License	(1,422)	(1,956)
Domain names	(11,213)	(11,474)
Technology	(11,856)	(11,787)
Total accumulated amortization	(101,348)	(172,154)
Less: accumulated impairment	(7,495)	(7,398)
Intangible assets, net	74,685	3,533,432

Amortization expense for the three months ended March 31, 2018 and 2019 were RMB3,703 and RMB70,870, respectively.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

5. Intangible assets, net (continued)

The estimated amortization expenses for each of the following five years as of March 31 are as follows:

	Amortization expense of intangible assets
	RMB
2020	761,344
2021	644,132
2022	307,245
2023	306,832
2024	301,670

The weighted average amortization periods of intangible assets as of December 31, 2018 and March 31, 2019 are as below:

	December 31, 2018	March 31, 2019
Trademark	Not applicable	10 years
User base	Not applicable	3 years
Non-compete agreement	Not applicable	1 year
Operating rights	2 years	2 years
Software	4 years	5 years
License	15 years	15 years
Domain names	15 years	15 years

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

6. Accrued liabilities and other current liabilities

	December 31, 2018 RMB	March 31, 2019 RMB
Revenue sharing fees	1,318,561	1,417,482
Marketing and promotion expenses	213,216	597,085
Salaries and welfare	329,169	260,149
Bandwidth costs	131,252	238,106
Consideration payables related to business acquisition	-	238,014
Value added taxes and other taxes payable	109,040	149,276
Deposits from third parties	82,771	100,004
Payables to merchants	75,471	78,040
Other payables to content providers	30,313	48,944
Others	124,578	197,834
Total	2,414,371	3,324,934

7. Short-term loans

	December 31, 2018 RMB	March 31, 2019 RMB
Short-term loans	-	1,282,516

The Group entered into agreements with financial institutions, pursuant to which the Group borrowed three loans with total principal amount of US$149.7 million and HK$320 million in the first quarter of 2019. These loans were all with a maturity of less than one year and the annual interest rates of these loans ranged from 2.38% to 3.88%. Term deposits of RMB300 million and US$50 million were pledged as collaterals for the loans.

8. Cost of revenues

	For the three months ended March 31,	
	2018 RMB	2019 RMB
Revenue sharing fees and content costs	1,620,959	2,524,715
Bandwidth costs	225,423	297,402
Salaries and welfare	70,871	119,330
Payment handling costs	20,012	98,957
Depreciation and amortization	29,885	37,785
Other taxes and surcharges	10,099	19,943
Share-based compensation	19,608	14,309
Other costs	18,940	47,884
Total	2,015,797	3,160,325

9. Income tax

(i) Cayman Islands

Under the current tax laws of Cayman Islands, the Company and its subsidiaries are not subject to tax on income or capital gains. Besides, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

(ii) BVI

Duowan BVI is exempted from income tax on its foreign-derived income in the BVI. There are no withholding taxes in the BVI.

(iii) Hong Kong profits tax

Under the current Hong Kong Inland Revenue Ordinance, the subsidiaries of the Group in Hong Kong are subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

(iv) Singapore

The income tax provision of the Group in respect of its international operations in Singapore was calculated at the tax rate of 17% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

According to the Development and Expansion Incentive (the "Incentive") pursuant to the provisions of Part IIIB of the Economic Expansion Incentives (Relief from Income Tax) Act, Chapter 86, corporations engaging in new high-value-added projects, expanding or upgrading their operations, or undertaking incremental activities after their pioneer period may apply for their profits to be taxed at a reduced rate of not less than 5% for an initial period of up to ten years. The total tax relief period for each qualifying project or activity is subject to a maximum of 40 years (inclusive of the post-pioneer relief period previously granted, if applicable).

The Group's Singapore entities provided for income tax are as follows:

- Bigo Singapore applied for the Incentive and received approval in October 2018. Bigo Singapore is entitled to enjoy the beneficial tax rate of 5% as the Incentive for the years 2018 through 2022, and will need to re-apply for the Incentive qualification renewal in 2023.

- Other Singapore entities were subject to 17% income tax for the periods reported.

(v) PRC

The Company's subsidiaries and VIEs in China are governed by the Enterprise Income Tax Law ("EIT Law"), which became effective on January 1, 2008. Pursuant to the EIT Law and its implementation rules, enterprises in China are generally subject to tax at a statutory rate of 25%. Certified High and New Technology Enterprises ("HNTE") are entitled to a favorable statutory tax rate of 15%, but need to re-apply every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% EIT rate.

Enterprises qualified as software enterprises can enjoy an income tax exemption for two years beginning with their first profitable year and a 50% tax reduction to the applicable tax rate for the subsequent three years. An entity that qualifies as a "Key National Software Enterprise" (a "KNSE") is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification. These enterprises will be subject to the tax authorities' assessment each year as to whether they are entitled to use the relevant preferential EIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential EIT rates but the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise/KNSE status.

9. Income tax (continued)

(v) PRC (continued)

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located”. Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its entities registered outside of the PRC should be considered as resident enterprises for the PRC tax purposes.

The Group’s PRC entities provided for enterprise income tax are as follows:

· Guangzhou Huaduo applied for the renewal of HNTE qualification and received approval in December 2016. Guangzhou Huaduo is entitled to continue to enjoy the beneficial tax rate of 15% as an HNTE for the years 2016 through 2018, and will need to re-apply for HNTE qualification renewal in 2019. In 2019, Guangzhou Huaduo is expected to enjoy the beneficial tax rate of 15% based on its self-assessment.

· In 2018, Guangzhou Huanju Shidai was qualified as a KNSE after the relevant government authorities’ assessment and was entitled to a preferential income tax rate of 10%. In 2019, Guangzhou Huanju Shidai is expected to enjoy a reduced tax rate of 10% based on its self-assessment.

· In June 2017, Guangzhou Juhui Information Technology Co., Ltd. was qualified as a Software Enterprise, and started to enjoy the zero preferential tax rate beginning from 2016 and 12.5% preferential tax rate beginning from 2018.

· Huya Technology was qualified as a Software Enterprise, and started to enjoy the zero preferential tax rate starting from 2017 and 12.5% preferential tax rate starting from 2019.

· Guangzhou Huya applied for the HNTE qualification and received approval in November 2018. Guangzhou Huya is entitled to enjoy the preferential tax rate of 15% as an HNTE for three years starting from 2018, and will need to apply for HNTE qualification renewal in 2021.

· Guangzhou BaiGuoYuan applied for the HNTE and received approval in December 2016. Guangzhou BaiGuoYuan is entitled to enjoy the beneficial tax rate of 15% as an HNTE for the years 2016 through 2018, and will need to re-apply for HNTE qualification renewal in 2019. In 2019, Guangzhou BaiGuoYuan is expected to enjoy the beneficial tax rate of 15% based on its self-assessment.

· BaiGuoYuan Technology applied for the HNTE and received approval in 2018. BaiGuoYuan Technology are entitled to enjoy the beneficial tax rate of 15% as HNTEs for the years 2018 through 2020, and will need to re-apply for HNTE qualification renewal in 2021.

· Other PRC subsidiaries and VIEs were subject to 25% EIT for the periods reported.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The additional tax deducting amount of the qualified research and development expenses have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 (“Super Deduction”).

Certain subsidiaries and VIEs of the Group successfully claimed the Super Deduction in ascertaining the tax assessable profits for the periods reported.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

9. Income tax (continued)

(v) PRC (continued)

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by an FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between the mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). In accordance with accounting guidance, all undistributed earnings are presumed to be transferred to the parent company and are subject to the withholding taxes. All FIEs are subject to the withholding tax from January 1, 2008. The presumption may be overcome if the Group has sufficient evidence to demonstrate that the undistributed dividends will be re-invested and the remittance of the dividends will be postponed indefinitely.

Aggregate undistributed earnings and reserves of the Group entities located in the PRC that are available for distribution to the Company as of December 31, 2018 and March 31, 2019 are approximately RMB11,519,699 and RMB12,635,662, respectively.

The Group has a plan to indefinitely reinvest its funds and any future earnings for use in the operation and expansion of its business. Accordingly, no deferred tax liability on 10% withholding tax of aggregate undistributed earnings and reserves of the Company's subsidiaries located in the PRC has been accrued that would be payable upon the distribution of those amounts to the Company as of December 31, 2018 and March 31, 2019.

Composition of income tax expense

The current and deferred portions of income tax expense included in the unaudited interim condensed consolidated statements of comprehensive income are as follows:

	For the three months ended March 31,	
	2018	2019
	RMB	RMB
Income before income tax expenses		
PRC entities	675,595	911,441
Non-PRC entities (a)	432,384	2,355,356
Total	1,107,979	3,266,797
Current income tax expenses		
PRC entities	(102,731)	(158,392)
Non-PRC entities	-	(2,911)
Total	(102,731)	(161,303)
Deferred income tax (expenses) benefit		
PRC entities	4,968	33,100
Non-PRC entities	(50,482)	4,232
Total	(45,514)	37,332
Income tax expenses		
PRC entities	(97,763)	(125,292)
Non-PRC entities	(50,482)	1,321
Total	(148,245)	(123,971)

(a) The income before tax incurred by non-PRC entities for the three months ended March 31, 2019 was mainly due the Company's previously held equity interest in Bigo which was re-measured to fair value on the acquisition date, and a re-measurement gain of RMB2,669,334 was recognized as gain on fair value changes of investments. This fair value gain was incurred by Duowan BVI whose applicable tax rate is zero.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

10. Share-based compensation

Under the Company's 2011 Share Incentive Scheme, the Company granted restricted share units and share options to its employees. Besides, Huya granted restricted share units and share options to its employees under Huya's 2017 Share Incentive Plan, details of which were disclosed in the company's audited consolidated financial statements for the year ended December 31, 2018. For the three month ended March 31, 2019, the new grants of share-based awards under the Company's 2011 Share Incentive Scheme and Huya's 2017 Share Incentive Plan were immaterial. For the three months ended March 31, 2019, the Company recorded share-based compensation of RMB139,788 using the graded-vesting attribution method for the Company's share-based awards other than those granted to Bigo's employees, which is discussed below.

In connection with the acquisition of Bigo in March 2019, the Group granted replacement awards to Bigo's employees covering Bigo's original share incentive scheme. These awards are included in the Company's 2011 Share Incentive Scheme.

There are mainly three types of vesting schedule under Bigo's original share incentive scheme, which are: i) 50% of the share-based awards will be vested after 24 months of the grant date and the remaining 50% will be vested in two equal installments over the following 24 months, ii) share-based awards will be vested in four equal installments over the following 48 months, and iii). share-based awards will be vested in three equal installments over the following 36 months. After the acquisition, Bigo's original share incentive scheme are replaced by YY's restricted shares without change in vesting terms. The post-acquisition share-based compensation expenses are recognized over the remaining vesting period after the acquisition date.

The following table summarizes the restricted shares activity for the three months ended March 31, 2019:

	Number of restricted shares	**Weighted average grant-date fair value (US$)**
Outstanding, December 31, 2018	-	-
Granted	38,042,760	3.6020
Forfeited	(1,485,159)	3.6020
Vested	(288,815)	3.6020
Outstanding, March 31, 2019	36,268,786	3.6103
Expected to vest at March 31, 2019	31,459,321	3.6116

For the three months ended March 31, 2019, the Company recorded share-based compensation for restricted shares granted to Bigo's employees of RMB41,981 using the graded-vesting attribution method. As of March 31, 2019, total unrecognized compensation expense relating to the restricted shares granted to Bigo's employees was RMB501,774. The expense is expected to be recognized over a weighted average period of 1.83 years using the graded-vesting attribution method.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

11. Basic and diluted net income per share

Basic and diluted net income per share for the three months ended March 31, 2018 and 2019 are calculated as follows:

	For the three months ended March 31,	
	2018	2019
	RMB	RMB
Numerator:		
Net income attributable to common shareholders of YY Inc.	444,138	3,104,338
Interest expenses of convertible notes	36	38
Incremental dilution from Huya(1)	-	(2,217)
Numerator for diluted income per share	444,174	3,102,159
Denominator:		
Denominator for basic calculation—weighted average number of Class A and Class B common shares outstanding	1,273,890,701	1,381,941,802
Dilutive effect of share options	154,347	-
Dilutive effect of restricted share	-	1,395,656
Dilutive effect of restricted share units	20,042,706	9,299,569
Dilutive effect of convertible bonds	180,668	180,668
Denominator for diluted calculation	1,294,268,422	1,392,817,695
Basic net income per Class A and Class B common share	0.35	2.25
Diluted net income per Class A and Class B common share	0.34	2.23
Basic net income per ADS*	6.97	44.93
Diluted net income per ADS*	6.86	44.55

* Each ADS represents 20 common shares.

(1) In calculation of diluted net income per share, assuming a dilutive effect, all of Huya's existing unvested restricted share units and unexercised share options are treated as vested and exercised by Huya under the treasury stock method, causing the decrease percentage of the weighted average number of shares held by YY in Huya. As a result, Huya's net income (loss) attributable to YY on a diluted basis decreased accordingly, which is presented as "incremental dilution from Huya" in the table.

12. Related party transactions

The table below sets forth the major related parties and their relationships with the Group:

Major related parties	Relationship with the Group
Guangzhou Sunhongs Corp., Ltd. (“Guangzhou Sunhongs”)	Significant influence exercised by a principal shareholder of the Company
Kingsoft Corporation Limited (“Kingsoft Group”)	Significant influence exercised by a principal shareholder of the Company
Xiaomi Corporation(“Xiaomi Group”)	Controlled by a principal shareholder of the Company
Bigo*	Investment with significant influence
Shanghai Ansha Network Technology Co., Ltd.(“Shanghai Ansha”)	Investment with significant influence
Guangzhou Kuyou Information Technology Co., Ltd.(“Guangzhou Kuyou”)	Investment with significant influence

*Bigo became a subsidiary of the Group on March 4, 2019. Therefore, Bigo ceased to be a related party of the Group since March 4, 2019.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

12. Related party transactions (continued)

During the three months ended March 31, 2018 and 2019, significant related party transactions are as follows:

	For the three months ended March 31,	
	2018	2019
	RMB	RMB
Loans to a related party	20,000	170,000
Bandwidth service provided by Guangzhou Sunhongs	23,506	27,290
Bandwidth service provided by Kingsoft Group	2	11,906
Live streaming revenue sharing from Xiaomi Group	-	4,128
Online games revenue shared from related parties	12,135	1,222
Payments on behalf of related parties, net of repayments	423	(1,944)
Repayment of loans from a related party	20,000	-
Others	1,746	6,776

As of December 31, 2018 and March 31, 2019, the amounts due from/to related parties are as follows:

	December 31,	March 31,
	2018	2019
	RMB	RMB
Amounts due from related parties		
Due from Xiaomi Group	1,652	4,124
Due from Bigo(1)	191,800	-
Others	107	6,206
Total	193,559	10,330
Amounts due to related parties		
Due to Guangzhou Sunhongs	11,062	9,969
Due to Kingsoft Group	5,239	8,506
Due to Shanghai Ansha	5,364	5,342
Due to Guangzhou Kuyou	4,144	3,852
Due to Xiaomi Group	-	3,349
Others	2,527	2,727
Total	28,336	33,745

(1) The amounts due from Bigo mainly consisted of unsecured loans provided to Bigo. The maturities of the loans were all within one year.

Other receivables and payables from/to related parties are unsecured and payable on demand.

13. Fair value measurements

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the assets or liabilities.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This guidance specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1—Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2—Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3—Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value guidance describes three main approaches to measure the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

The Group did not have any other financial instruments that were required to be measured at fair value on a recurring basis as of March 31, 2019 except for short-term investments and equity investment with readily determinable fair values.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

13. Fair value measurements (continued)

The following table summarizes the Company's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy as of December 31, 2018 and March 31, 2019:

	As of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Short-term investments (i)	78,605	900,448	-	979,053
Equity investment with readily determinable fair values (ii)	238,915	-	-	238,915
	317,520	900,448	-	1,217,968

	As of March 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Short-term investments (i)	134,846	1,267,832	-	1,402,678
Equity investment with readily determinable fair values (ii)	71,785	-	-	71,785
	206,631	1,267,832	-	1,474,463

(i) Short-term investments represented the investments issued by commercial banks or other financial institutions with a variable interest rate indexed to the performance of underlying assets within one year. For the instruments whose fair value is provided by banks at the end of each period, the Company classifies the valuation techniques that use these inputs as Level 1 of fair value measurements. For the instruments whose fair value is estimated based on quoted prices of similar products provided by banks at the end of each period, the Company classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

(ii) Equity investments with readily determinable fair values are valued using the market approach based on the quoted prices in active markets at the reporting date. The Group classifies the valuation techniques that use these inputs as Level 1 of fair value measurements.

13. Fair value measurements (continued)

Fair value measurement on a non-recurring basis

The Company measures investments without readily determinable fair value on a nonrecurring basis when impairment charges and fair value change due to observable price change are recognized. These nonrecurring fair value measurements use significant unobservable inputs (Level 3). The Company uses a combination of valuation methodologies, including market and income approaches based on the Company's best estimate to determine the fair value of these investments. An observable price change is usually resulting from new rounds of financing of the investees. The Company determines whether the securities offered in new rounds of financing are similar to the equity securities held by the Company by comparing the rights and obligations of the securities. When the securities offered in new rounds of financing are determined to be similar to the securities held by the Company, the Company adjusts the observable price of the similar security to determine the amount that should be recorded as an adjustment in the carrying value of the security to reflect the current fair value of the security held by the Company by using the back-solve method based on the equity allocation model with adoption of some key parameters such as risk-free rate and equity volatility. Inputs used in these methodologies primarily include discount rate, the selection of comparable companies operating in similar businesses and etc. For the three months ended March 31, 2019, the Company's previously held equity interest in Bigo was re-measured to fair value on the acquisition date, and a re-measurement gain of RMB2,669,334 was recognized as gain on fair value changes of investments.

Apart from the short-term investments, equity investment measured at fair value through earnings, the Company's other financial instruments principally consist of cash and cash equivalent, short-term deposits, long-term deposits, accounts receivable, financing receivables, other receivables, amounts due to/from related parties, accounts payable, certain accrued expenses and convertible bonds. The recorded values of cash, short-term deposits, long-term deposits, accounts receivable, financing receivables, other receivables, amounts due to/from related parties, accounts payable, certain accrued expenses and convertible bonds are recorded at cost which approximates fair value. The fair value of convertible bonds is within Level 2 of the fair value hierarchy.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

14. Commitments and contingencies

(a) Operating lease commitments

As of December 31, 2018, future minimum payments under non-cancellable operating leases commitments consist of the following:

	Office rental RMB
2019	84,689
2020	53,609
2021	35,871
2022 and after	47,726
	221,895

As of March 31, 2019, future minimum payments under non-cancellable operating leases commitments consist of the following:

	Office rental RMB
2020	17,592
2021	9,567
2022	8,765
2023 and after	8,574
	44,498

The operating lease commitments as of March 31, 2019, presented above mainly consist of the short-term lease commitments and leases that have not yet commenced but that create significant rights and obligations for the Company, which are not included in operating lease right-of–use assets and lease liabilities.

(b) Capital commitments

As of March 31, 2019, the Group had outstanding capital commitments totaling RMB94,815 which consisted of capital expenditures related to properties and additional investments in equity investments.

(c) Litigation

(i) In October 2014, Guangzhou NetEase Computer System Co., Ltd. ("Guangzhou NetEase") brought a copyright infringement claim against the Group in the Intermediate People's Court of Guangzhou, alleging that the Group's live game broadcasting program has infringed the copyright of one of their online games called Fantasy Westward Journey. The claimant is seeking RMB100 million for their potential damages, requesting YY to cease the copyright infringement practices and apologize publicly.

In November 2017, the local court passed a judgment requesting the Company to compensate such game publisher for its loss amounting to RMB20 million, as a result of the alleged copyright infringement. Based on its estimate as of December 31, 2017, the Company recorded an estimated loss contingency of RMB20 million in its financial statements. Up to the date of this report, there has been no judgment from the appellate court yet and the Group's estimate on the loss contingency remained the same as last year.

(ii) A majority of the Group's corporate loan business was in the form of sale-and-leaseback arrangements, under which the Group purchases equipment from third party companies and lease back the equipment to the third party companies. In January 2019, one of the lessees was unable to repay the principal amount of around RMB15 million due in January 2019. The total financing receivable due from this lessee was RMB195 million as of March 31, 2019. The Group has brought a lawsuit against this lessee to the court, claiming the lessee to repay all the outstanding amount due to the Group. The court session has not been open up to the date of this report. Pursuant to the finance lease agreement, the legal titles of the equipment purchased by the Group have been transferred to the Group and the fair value of the equipment exceeds the total financing receivable due from the lessee. The Group also pledged or applied to the court to preserve certain assets of the lessee or the lessee's related entity. The Group believed that the financing receivable due from the lessee can be recovered based on the measures taken and therefore no loss allowance was provided against the receivable. The financing receivable was placed on non-accrual status after the lessee was unable to repay the principal due in January 2019.

15. Subsequent events

Huya completed a follow-on public offering of ADSs on April 12, 2019. As a result of these transactions, Huya issued and sold an aggregate of 13,600,000 ADSs and the Company, as selling shareholder, sold an aggregate of 4,800,000 Huya's ADSs it held at a price of US$24.00 per ADS.

The net proceeds received by Huya, after deducting underwriter commissions and estimated offering expenses, amounted to approximately US$313.8 million. The net proceeds received by the Company, after deducting underwriter commissions, amounted to approximately US$111.2 million.

16. Segment Reporting

There are two segments in the Group, including YY Live and Huya for the three months ended March 31, 2018. Starting from the first quarter of 2019, the segment of "YY Live" was renamed as "YY". The Company completed the acquisition of Bigo in March 2019, which is a separate segment of the Group. Therefore, there are three segments in the Group for the three months ended March 31, 2019.

The Group currently does not allocate assets to all of its segments, as its CODM does not use such information to allocate resources or evaluate the performance of the operating segments.

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

16. Segment Reporting (continued)

(a) The following table presents summary information by segment:

For the three months ended March 31, 2019:

	YY RMB	Huya RMB	Bigo RMB	Elimination RMB	Total RMB
Net revenues					
Live streaming	2,566,523	1,552,482	366,015	-	4,485,020
Others	186,733	78,996	29,835	-	295,564
Total net revenues	2,753,256	1,631,478	395,850	-	4,780,584
Cost of revenues(1)	(1,548,046)	(1,358,105)	(254,174)	-	(3,160,325)
Gross profit	1,205,210	273,373	141,676	-	1,620,259
Operating expenses(1)					
Research and development expenses	(235,502)	(90,044)	(79,190)	-	(404,736)
Sales and marketing expenses	(266,317)	(78,164)	(189,755)	-	(534,236)
General and administrative expenses	(163,364)	(85,811)	(27,249)	-	(276,424)
Total operating expenses	(665,183)	(254,019)	(296,194)	-	(1,215,396)
Other income	58,066	8,864	1,758	-	68,688
Operating income (loss)	598,093	28,218	(152,760)	-	473,551
Interest expenses	(6,219)	-	(1,395)	1,395	(6,219)
Interest income and investment income	94,745	54,585	354	(1,395)	148,289
Foreign currency exchange (losses) gains, net	(965)	(374)	2,672	-	1,333
Gain on fair value changes of investments	2,649,843	-	-	-	2,649,843
Income (loss) before income tax expenses	3,335,497	82,429	(151,129)	-	3,266,797
Income tax (expenses) benefits	(110,380)	(18,968)	5,377	-	(123,971)
Income (loss) before share of income (loss) in equity method investments, net of income taxes	3,225,117	63,461	(145,752)	-	3,142,826
Share of income (loss) in equity method investments, net of income taxes	7,157	(1)	-	-	7,156
Net income (loss)	3,232,274	63,460	(145,752)	-	3,149,982

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

16. Segment Reporting (continued)

(1) Share-based compensation was allocated in cost of revenues and operating expenses as follows:

	YY RMB	Huya RMB	Bigo RMB	Total RMB
Cost of revenues	7,224	4,020	3,065	14,309
Research and development expenses	25,992	11,824	32,791	70,607
Sales and marketing expenses	552	904	520	1,976
General and administrative expenses	38,194	51,078	5,605	94,877

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

16. Segment Reporting (continued)

For the three months ended March 31, 2018:

	YY RMB	Huya RMB	Elimination RMB	Total RMB
Net revenues				
Live streaming	2,239,251	792,784	-	3,032,035
Others	168,053	50,798	(1,955)	216,896
Total net revenues	2,407,304	843,582	(1,955)	3,248,931
Cost of revenues[1]	(1,303,264)	(712,533)	-	(2,015,797)
Gross profit	1,104,040	131,049	(1,955)	1,233,134
Operating expenses[1]				
Research and development expenses	(198,007)	(51,458)	-	(249,465)
Sales and marketing expenses	(211,673)	(25,940)	1,955	(235,658)
General and administrative expenses	(128,193)	(35,783)	-	(163,976)
Total operating expenses	(537,873)	(113,181)	1,955	(649,099)
Other income	2,091	10,283	-	12,374
Operating income	568,258	28,151	-	596,409
Interest expense	(2,019)	-	-	(2,019)
Interest income and investment income	81,607	10,584	-	92,191
Foreign currency exchange gains, net	6,719	-	-	6,719
Gain on fair value changes of investments	426,547	-	-	426,547
Fair value loss on derivative liabilities	-	(11,868)	-	(11,868)
Income before income tax expenses	1,081,112	26,867	-	1,107,979
Income tax (expenses) benefits	(152,709)	4,464	-	(148,245)
Income before share of income in equity method investments, net of income taxes	928,403	31,331	-	959,734
Share of income in equity method investments, net of income taxes	9,103	76	-	9,179
Net income	937,506	31,407	-	968,913

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

16. Segment Reporting (continued)

(1) Share-based compensation was allocated in cost of revenues and operating expenses as follows:

	YY RMB	Huya RMB	Total RMB
Cost of revenues	19,353	255	19,608
Research and development expenses	52,677	1,790	54,467
Sales and marketing expenses	1,451	418	1,869
General and administrative expenses	14,659	21,904	36,563

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

16. Segment Reporting (continued)

(b) The following tables set forth revenues and property and equipment for of the Company's geographic operations:

	For the three months ended March 31,	
	2018	2019
Revenues:		
PRC	3,248,931	4,450,344
Non- PRC	-	330,240

	As of December 31, 2018	As of March 31, 2019
Property and equipment, net:		
PRC	1,295,171	1,431,508
Non- PRC	1,148	266,265

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

17. VIEs

The following unaudited interim condensed consolidated financial information of the Group's VIEs excluding the intercompany items with the Group's subsidiaries was included in the accompanying unaudited interim condensed consolidated financial statements:

	As of December 31, 2018 RMB	As of March 31, 2019 RMB
Assets		
Current assets		
Cash and cash equivalents	4,665,938	6,278,016
Restricted cash and cash equivalents	-	7,043
Short-term deposits	2,100,000	1,300,000
Restricted short-term deposits	-	300,000
Short-term investments	979,052	1,387,645
Accounts receivable, net	192,932	232,257
Amounts due from related parties	172,258	8,636
Financing receivables, net	725,336	664,606
Prepayments and other current assets	663,437	471,456
Total current assets	9,498,953	10,649,659
Non-current assets		
Long-term deposits	1,000,000	-
Deferred tax assets	70,834	103,338
Investments	862,272	980,142
Property and equipment, net	655,402	765,213
Intangible assets, net	57,050	582,947
Land use rights, net	1,784,639	1,772,615
Right-of-use assets, net	-	72,052
Other non-current assets	143,240	131,535
Total non-current assets	4,573,437	4,407,842
Total assets	14,072,390	15,057,501
Liabilities		
Current liabilities		
Accounts payable	112,167	119,192
Deferred revenue	950,816	1,167,246
Advances from customers	101,690	90,516
Income taxes payable	162,118	242,545
Accrued liabilities and other current liabilities	2,207,138	2,195,200
Lease liabilities due within one year	-	33,092
Amounts due to related parties	28,336	30,327
Total current liabilities	3,562,265	3,878,118
Non-current liabilities		
Deferred revenue	86,977	123,976
Lease liabilities	-	40,007
Deferred tax liabilities	-	79,341
Total non-current liabilities	86,977	243,324
Total liabilities	3,649,242	4,121,442

(All amount in thousands, except share, ADS, per share and per ADS data, unless otherwise stated)

17. VIEs (continued)

	For the three months ended March 31,	
	2018	2019
	RMB	RMB
Net revenues	3,245,356	4,448,582
Net income	506,169	966,169

	For the three months ended March 31,	
	2018	2019
	RMB	RMB
Net cash provided by operating activities	859,492	1,046,447
Net cash provided by investing activities	291,504	1,385,494
Net cash provided by financing activities	-	-
	1,150,996	2,431,941

Exhibit 99.4

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

In June 2018, we invested US$272 million in the Series D round of financing of Bigo as the lead investor. We were then an existing shareholder of Bigo and had become its largest shareholder after the Series D financing. In March 2019, we completed the acquisition of the remaining 68.3% of equity interest in Bigo from the other shareholders of Bigo, or the Acquisition, including Mr. David Xueling Li, our chairman of the board of directors and chief executive officer. Pursuant to the agreement, we paid US$343.1 million in cash and issued 38,326,579 Class B common shares and 305,127,046 Class A common shares to the selling shareholders of Bigo.

The following unaudited pro forma condensed consolidated financial statements, or the Pro Forma Financial Statements, are based on YY's and Bigo's historical consolidated financial statements as adjusted to give effect to the pro forma events that are (i) directly attributable to the Acquisition, (ii) expected to have a continuing impact on the unaudited pro forma condensed consolidated statements of operations, and (iii) factually supportable. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2018 and the three months ended March 31, 2019 give effect to the pro forma events as if it had been completed by January 1, 2018. The condensed consolidated statements of operations of Bigo for the period from January 1, 2019 to March 4, 2019 has not been audited or reviewed by PricewaterhouseCoopers Zhong Tian LLP. A pro forma consolidated balance sheet has not been provided as the acquisition has been reflected in YY's consolidated balance sheet as of March 31, 2019.

The unaudited pro forma consolidated statement of income (i) is presented based on information currently available, (ii) is intended for informational purposes only, and (iii) does not reflect all actions that may be undertaken by us after the Acquisition.

While the Pro Forma Financial Statements are helpful in showing the financial characteristics of the consolidated companies, it is not intended to show how the consolidated companies would have actually performed if the events described above had in fact occurred on the dates acquired or to project the results of operations or financial position for any future date or period. We have included in the Pro Forma Financial Statements all adjustments, consisting of normal recurring adjustments, necessary of a fair presentation of the operating results in the historical periods. We believe that the assumptions utilized to prepare the pro forma adjustments provide a reasonable basis for presenting the significant effects of the transactions and that the Pro Forma Financial Statements are factually supportable, give appropriate effect to the impact of the events that are directly attributable to the transactions, and reflect those items expected to have a continuing impact on our financial condition.

The Pro Forma Financial Statements should be read in conjunction with the accompanying notes to the Pro Forma Financial Statements, our historical consolidated financial statements and the notes thereto of YY and Bigo included elsewhere in this offering memorandum and the 2018 Annual Report incorporated by reference herein, along with "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Result of Operations."

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

The following table sets forth the pro forma unaudited condensed consolidated statement of operations for the year ended December 31, 2018.

	For the year ended December 31, 2018				
	YY	**Bigo**	**Pro Forma Adjustments**	**Note**	**Pro forma consolidated results**
	RMB	**RMB**	**RMB**		**RMB**
Net revenues					
Live streaming	14,877,667	3,018,591	-		17,896,258
Others	885,890	9,810	(5,950)	(e)	889,750
Total net revenues	15,763,557	3,028,401	(5,950)		18,786,008
Cost of revenues	(10,017,134)	(1,872,875)	(14,807)	(c)	(11,904,816)
Gross profit	5,746,423	1,155,526	(20,757)		6,881,192
Operating expenses					
Research and development expenses	(1,192,052)	(446,948)	(187,111)	(c)	(1,826,111)
Sales and marketing expenses	(1,149,316)	(944,148)	(654,651)	(a)□(c)	(2,748,115)
General and administrative expenses	(883,225)	(135,147)	(101,944)	(a)□(c)□(e)	(1,120,316)
Total operating expenses	(3,224,593)	(1,526,243)	(943,706)		(5,694,542)
Other income	117,860	4,792	-		122,652
Operating income (loss)	2,639,690	(365,925)	(964,463)		1,309,302
Interest expense	(8,616)	(1,408)	1,408	(e)	(8,616)
Interest income and investment income	485,552	64,642	(1,408)	(e)	548,786
Foreign currency exchange losses, net	(514)	(13,525)	-		(14,039)
Gain on deemed disposal and disposal of investments	16,178	-	-		16,178
Gain on fair value changes of investments	1,689,404	-	(988,663)	(b)	700,741
Fair value loss on derivative liabilities	(2,285,223)	(626,729)	626,729	(g)	(2,285,223)
Other non-operating expenses	(2,000)	-	-		(2,000)
Income (loss) before income tax expenses	2,534,471	(942,945)	(1,326,397)		265,129
Income tax expenses	(477,707)	(67,551)	67,894	(f)	(477,364)
Income (loss) before share of income in equity method investments, net of income taxes	2,056,764	(1,010,496)	(1,258,503)		(212,235)
Share of income in equity method investments, net of income taxes	58,933	-	-		58,933
Net income (loss)	2,115,697	(1,010,496)	(1,258,503)		(153,302)
Less: Net loss attributable to the non-controlling interest shareholders and the mezzanine equity classified as non-controlling interest shareholders	(93,310)	-	-		(93,310)
Net income (loss) attributable to controlling interest of YY Inc.	2,209,007	(1,010,496)	(1,258,503)		(59,992)
Less: Accretion of subsidiaries' redeemable convertible preferred shares to redemption value	73,159	151,720	(151,720)	(g)	73,159
Deemed dividend to subsidiary's Series A preferred shareholders	489,284	-	-		489,284
Cumulative dividend on subsidiary's Series A Preferred Shares	4,606	-	-		4,606
Net income (loss) attributable to common shareholders of YY Inc.	1,641,958	(1,162,216)	(1,106,783)		(627,041)

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(All amounts in thousands, except share, ADS, per share and per ADS data)

	For the year ended December 31, 2018				
	YY	Bigo	Pro Forma Adjustments	Note	Pro forma consolidated results
	RMB	RMB	RMB		RMB
Net income (loss) per ADS*					
—Basic	25.64				(7.88)
—Diluted	25.38				(7.88)
Weighted average number of ADS used in calculating net income per ADS					
—Basic	64,042,390		15,490,140	(h)	79,532,530
—Diluted	64,704,470		14,828,060	(h)	79,532,530
Net income (loss) per common share*					
—Basic	1.28				(0.39)
—Diluted	1.27				(0.39)
Weighted average number of common shares used in calculating net income per common share					
—Basic	1,280,847,795		309,802,804	(h)	1,590,650,599
—Diluted	1,294,089,406		296,561,193	(h)	1,590,650,599

* Each ADS represents 20 common shares.

The financial numbers of Bigo for the year ended December 31, 2018 as presented in the table above are translated from the consolidated statement of operation of Bigo for the year ended December 31, 2018 using the average exchange rate between US$ and RMB during the year.

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated statements of operations.

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(All amounts in thousands, except share, ADS, per share and per ADS data)

The following table sets forth the pro forma unaudited condensed consolidated statement of operations for the three months ended March 31, 2019. The condensed consolidated statements of operations of Bigo for the period from January 1, 2019 to March 4, 2019 has not been audited or reviewed by PricewaterhouseCoopers Zhong Tian LLP.

	YY For the three months ended March 31, 2019	Bigo For the period from January 1, 2019 to March 4, 2019	Pro forma Adjustments	Note	Pro forma consolidated results
	RMB	RMB	RMB		RMB
Net revenues					
Live streaming	4,485,020	659,346	-		5,144,366
Others	295,564	2,049	(66)	(e)	297,547
Total net revenues	4,780,584	661,395	(66)		5,441,913
Cost of revenues	(3,160,325)	(416,135)	(724)	(c)	(3,577,184)
Gross profit	1,620,259	245,260	(790)		1,864,729
Operating expenses					
Research and development expenses	(404,736)	(114,067)	(17,477)	(c)	(536,280)
Sales and marketing expenses	(534,236)	(278,095)	(111,055)	(a)□(c)	(923,386)
General and administrative expenses	(276,424)	(27,686)	31,841	(a)□(c)□(d)□(e)	(272,269)
Total operating expenses	(1,215,396)	(419,848)	(96,691)		(1,731,935)
Other income	68,688	13	-		68,701
Operating income (loss)	473,551	(174,575)	(97,481)		201,495
Interest expense	(6,219)	(2,049)	2,049	(e)	(6,219)
Interest income and investment income	148,289	18,204	(2,049)	(e)	164,444
Foreign currency exchange gains (losses), net	1,333	(13,506)	-		(12,173)
Gain on fair value changes of investments	2,649,843	-	(2,669,334)	(b)	(19,491)
Income (loss) before income tax expenses	3,266,797	(171,926)	(2,766,815)		328,056
Income tax expenses	(123,971)	(8,782)	13,535	(f)	(119,218)
Income (loss) before share of income in equity method investments, net of income taxes	3,142,826	(180,708)	(2,753,280)		208,838
Share of income in equity method investments, net of income taxes	7,156	-	-		7,156
Net income (loss)	3,149,982	(180,708)	(2,753,280)		215,994
Less: Net income attributable to the non-controlling interest shareholders and the mezzanine equity classified non-controlling interest shareholders	29,549	-	-		29,549
Net income (loss) attributable to controlling interest of YY Inc.	3,120,433	(180,708)	(2,753,280)		186,445
Less: Accretion of subsidiaries' redeemable convertible preferred shares to redemption value	9,365	-	-		9,365
Cumulative dividend on subsidiary's Series A Preferred Shares	6,730	-	-		6,730
Net income (loss) attributable to common shareholders of YY Inc.	3,104,338	(180,708)	(2,753,280)		170,350

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(All amounts in thousands, except share, ADS, per share and per ADS data)

	YY for the three months ended March 31, 2019	Bigo For the period from January 1, 2019 to March 4, 2019	Pro forma Adjustments	Note	Pro forma consolidated results
	RMB	RMB	RMB		RMB
Net income per ADS*					
—Basic	44.93				2.13
—Diluted	44.55				2.06
Weighted average number of ADS used in calculating net income per ADS					
—Basic	69,097,090		10,978,285	(h)	80,075,375
—Diluted	69,640,885		11,882,223	(h)	81,523,108
Net income per common share*					
—Basic	2.25				0.11
—Diluted	2.23				0.10
Weighted average number of common shares used in calculating net income per common share					
—Basic	1,381,941,802		219,565,688	(h)	1,601,507,490
—Diluted	1,392,817,695		237,644,455	(h)	1,630,462,150

*Each ADS represents 20 common shares.

The financial numbers of Bigo for the period from January 1, 2019 to March 4, 2019 as presented in the table above are translated from the consolidated statement of operation of Bigo for the period from January 1, 2019 to March 4, 2019 using the average exchange rate between US$ and RMB during the year.

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated statements of operations.

NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

Note 1. Basis of presentation

These unaudited pro forma condensed consolidated statements of operations give effect to the acquisition of Bigo Inc ("Bigo") by YY Inc. (the "Company"), as if the acquisition described in Note 2 had been completed by January 1, 2018. A pro forma consolidated balance sheet has not been provided as the acquisition has been reflected in the Company's consolidated balance sheet as of March 31, 2019.

These unaudited pro forma condensed consolidated statements of operations have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP") using the accounting policies described in the Company's audited consolidated financial statements as at December 31, 2018. The unaudited pro forma financial statements should be read together with the audited consolidated financial statements of the Company for the years ended December 31, 2018 and the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019.

The historical consolidated financial statements have been adjusted in the unaudited pro forma condensed consolidated statements of operations to give effect to pro forma events that are (1) directly attributable to the acquisition, (2) expected to have a continuing impact on the unaudited pro forma condensed consolidated statements of operations, and (3) factually supportable.

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2018 have included Bigo's statement of operations for the year ended December 31, 2018. The unaudited pro forma condensed consolidated statement of operations for the three months ended March 31, 2019 have included in Bigo's statement of operations for the period from January 1, 2019 to March 4, 2019.

The unaudited pro forma financial statements do not necessarily reflect what the consolidated company's results of operations would have been had the acquisition been completed by January 1, 2018. They may also not be useful in predicting future results of operations for the consolidated company. The actual results from operations may differ significantly from the pro forma results reflected herein. The consolidated results of operations do not reflect the realization of any expected cost savings or other synergies from the acquisition of Bigo as a result of planned cost savings or other initiatives following the completion of the acquisition.

Note 2. Description of transaction and purchase price allocation

Immediately prior to this acquisition, the Company held 31.7% of equity interest of Bigo, which is primarily engaged in the video and audio broadcast business through its live-streaming applications and platforms all over the world. The Company had a contingent redemption right on its investment in Bigo, therefore the interest held by the Company did not meet the definition of in-substance common stock under ASC 323. As the investment in Bigo did not have readily determinable fair value, it was accounted for as an investment at cost less impairments, adjusted by observable price changes.

In February 2019, the Group entered into a share purchase agreement with Bigo and its shareholders. Under the agreement, the Group agreed to purchase all outstanding shares of Bigo that were not already owned by the Group. Pursuant to the agreement, the Company paid US$343.1 million in cash and issued 305,127,046 Class A common shares and 38,326,579 Class B common shares of the Company to Bigo's other shareholders. In addition, the Company has also issued 8,761,450 Class A common shares for future grants to employees as share based awards. The acquisition was completed on March 4, 2019. The Group believed that the acquisition of Bigo helped the Group create enhanced live streaming content, expand global footprint and offer world-class user experiences for global user community. Upon the completion of the acquisition, Bigo became a wholly-owned subsidiary of the Group.

The following table summarizes the components of the purchase consideration transferred based on the closing price of the Company's common share as of the acquisition date:

	As of acquisition date RMB
Cash	2,300,196
Fair value of common shares issued	7,704,420
Fair value of previously held equity interest in Bigo	5,697,154
Elimination of preexisting amounts due from Bigo	323,002
Total consideration	16,024,772

The fair value of common shares issued above does not include post-acquisition share-based compensation amounting to RMB590,346. Out of the 305,127,046 Class A common shares issued, 38,042,760 shares are for the replacement awards to Bigo's employees to replace their original share-based awards. The post-acquisition share-based compensation of RMB590,346 is share-based compensation subject to continuous employment and will be recognized as share-based compensation expenses over the remaining required service period.

Immediately before the acquisition, the amounts due from Bigo to the Company amounted to RMB323,002. This amount due from Bigo was effectively eliminated upon the acquisition. The amount of the preexisting amounts due from Bigo of RMB323,002 was included as part of the consideration.

In accordance with ASC 805, the Company's previously held equity interest in Bigo was re-measured to fair value on the acquisition date, and a re-measurement gain of RMB2,669,334 was recognized as gain on fair value changes of investments. Acquisition-related costs of RMB27,162 was recognized as general and administrative expenses.

NOTES TO THE PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(All amounts in thousands, except share, ADS, per share and per ADS data)

Note 2. Description of transaction and purchase price allocation (continued)

The acquisition was accounted for as a business combination. The Group made estimates and judgements in determining the fair value of the assets acquired and liabilities assumed with the assistance from an independent valuation firm. The consideration was allocated on the acquisition date as follows:

	As of acquisition date RMB	Amortization period
Net tangible asset acquired:		
-Cash and cash equivalents, restricted cash and cash equivalents and restricted short-term deposits	912,356	
-Accounts receivables	386,517	
-Other current assets	52,432	
-Property and equipment, net	294,030	
-Other non-current assets	174,837	
Identifiable intangible assets acquired:		
-Trademark	2,400,354	10 years
-User Base	1,027,191	3 years
-Non-compete agreement	81,129	1 year
-Others	6,195	
Accrued liabilities and other liabilities	(1,425,777)	
Deferred tax liabilities	(316,859)	
Goodwill	12,432,367	
Total	16,024,772	

The goodwill was mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under U.S. GAAP, and mainly comprise (a) the assembled work force and (b) the expected future growth, enhancing world-class user experience and expansion in global markets as a result of the synergy resulting from the acquisition. The goodwill recognized was not expected to be deductible for income tax purpose.

Note 3. Pro forma adjustments

The pro forma condensed consolidated statements of operations reflect the following adjustments as if the acquisition of Bigo had been completed by January 1, 2018:

(a) Represents additional intangible asset amortization expenses related to the acquired intangible assets recorded at their fair value and corresponding deferred tax liability, including trademark, user base and non-compete agreement. Additional amortization of RMB652,767 and RMB79,985 was recorded in sales and marketing expenses and general and administrative expenses for the year ended December 31, 2018, respectively. Additional amortization of RMB110,922 and a reversal of amortization amounting to RMB6,768 was recorded in sales and marketing expenses and general and administrative expenses for the three months ended March 31, 2019, respectively. As the acquisition of Bigo is assumed to have been completed by January 1, 2018 and the amortization period of the non-compete agreement is one year, the non-compete agreement would have been fully amortized by the end of 2018. The amortization of the non-compete agreement is charged to general and administrative expenses. Therefore, a reversal of amortization was recorded in general and administrative expenses for the three months ended March 31, 2019 to reverse the amortization charges of the non-compete agreement in March 2019.

(b) Represents the elimination of the gains that were recorded due to the remeasurement of YY's original interests in Bigo to fair value.

(c) Represents post-combination share-based compensation of the replacement award to Bigo's employees and the reversal of the share-based compensation of Bigo's original share incentive scheme. Share-based compensation of RMB14,807, RMB187,111, RMB1,884 and RMB27,909 was recorded in cost of revenues, research and developments expenses, sales and marketing expenses and general and administrative expenses for the year ended December 31, 2018, respectively. Share-based compensation of RMB724, RMB17,477, RMB133 and RMB2,155 was recorded in cost of revenues, research and developments expenses, sales and marketing expenses and general and administrative expenses for the three months ended March 31, 2019, respectively.

(d) Represents the removal of transaction costs related to the acquisition of Bigo for the three months ended March 31, 2019.

(e) Represents the elimination of transaction between Bigo and the Company.

(f) Reflects the income tax effect of pro forma adjustments of the acquisition calculated based on the applicable tax rate of relevant entities.

(g) Represents the removal of fair value loss on derivative liabilities related to Bigo's preferred shares and accretion of Bigo's preferred shares to redemption value. As the acquisition of Bigo is assumed to have been completed by January 1, 2018, Bigo's preferred shares would not have been existed and therefore there would have been no fair value loss on derivative liabilities and accretion related to the preferred shares.

(h) Represents the increase in the weighted average shares in connection with the issuance of the common shares related to the acquisition of Bigo as if the acquisition had taken place on January 1, 2018.

Exhibit 99.5

BIGO INC

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Report of Independent Auditors

To the Board of Directors of Bigo Inc

We have audited the accompanying consolidated financial statements of Bigo Inc and its subsidiaries (the “Company”), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of comprehensive loss, changes in shareholders’ deficit, and cash flows for the year then ended.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bigo Inc and its subsidiaries as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/PricewaterhouseCoopers Zhong Tian LLP
Guangzhou, the People’s Republic of China
June 18, 2019

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018
(All amounts in thousands, except share and per share data)

	Note	As of December 31, 2018
		US$
Assets		
Current assets		
Cash and cash equivalents	5	44,840
Restricted cash and cash equivalents	6	1,020
Short-term deposits	7	-
Restricted short-term deposits	8	184
Short-term investments	9	20,045
Accounts receivable, net	10	40,417
Prepayments and other current assets	11	18,572
Amount due from related parties	24	11,111
Total current assets		136,189
Non-current assets		
Property and equipment, net	12	32,958
Intangible assets, net	13	1,109
Goodwill	14	-
Deferred tax assets	20	1,736
Prepayment and other non-current assets	15	422,799
Total non-current assets		458,602
Total assets		594,791
Liabilities, mezzanine equity and shareholders' deficit		
Current liabilities		
Accounts payable (including amounts of the consolidated variable interest entity ("VIEs") without recourse to the Company of US$1,869 as of December 31, 2018. Note1(d))	16	8,910
Deferred revenue (including amounts of the consolidated VIEs of without recourse to the Company of US$3,154 as of December 31, 2018. Note1(d))	17	8,477
Income tax payable (including amounts of the consolidated VIEs without recourse to the Company of US$7,421 as of December 31, 2018. Note1(d))		12,566
Accrued liabilities and other current liabilities (including amounts of the consolidated VIEs without recourse to the Company of US$42,552 as of December 31, 2018. Note1(d))	18	110,309
Amounts due to a related party (including amounts of the consolidated VIEs without recourse to the Company of US$24,978 as of December 31, 2018. Note1(d))	24	24,991
Total current liabilities		165,253
Non-current liabilities		
Deferred revenue (including deferred revenue of the consolidated VIEs without recourse to the Company of US$238 as of December 31, 2018. Note1(d))	17	249
Derivative liabilities (including derivative liabilities of the consolidated VIE without recourse to the Company of nil as of December 31, 2018. Note1(d))	22	-
Total non-current liabilities		249
Total liabilities		165,502

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018 (CONTINUED)
(All amounts in thousands, except share and per share data)

	Note	As of December 31, 2018 US$
Commitments and contingencies	26	
Mezzanine equity		
Series A redeemable convertible preferred shares ("Preferred Shares") (US$0.00001 par value; 250,000,000 shares authorized, issued and outstanding as of December 31, 2018)	22	137,354
Series B Preferred Shares (US$0.00001 par value; 400,000,000 shares authorized, issued and outstanding as of December 31, 2018)	22	227,745
Series C Preferred Shares (US$0.00001 par value; 350,000,000 shares authorized, issued and outstanding as of December 31, 2018)	22	203,028
Series D Preferred Shares (US$0.00001 par value; none and 532,291,667 shares authorized, issued and outstanding as of December 31, 2018)	22	381,445
Total mezzanine equity		949,572
Shareholders' deficit		
Common shares (US$0.00001 par value; 4,000,000,000 shares authorized, 628,292,725 shares issued and outstanding as of December 31, 2018)	21	6
Additional paid-in capital		-
Statutory reserves	2(aa)	845
Accumulated deficits		(525,006)
Accumulated other comprehensive income		3,872
Total shareholders' deficit		(520,283)
Total liabilities, mezzanine and shareholders' deficit		594,791

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018
(All amounts in thousands, except share and per share data)

	Note	For the year ended December 31, 2018 US$
Net revenues		
Live streaming		456,650
Others		1,484
Total net revenues		458,134
Cost of revenues [(1)]	19	(283,327)
Gross profit		174,807
Operating expenses [(1)]		
Research and development expenses		(67,614)
Sales and marketing expenses		(142,830)
General and administrative expenses		(20,445)
Total operating expenses		(230,889)
Other income	2(x)	725
Operating loss		(55,357)
Foreign currency exchange losses, net		(2,046)
Interest expense		(213)
Interest and short-term investments income		9,779
Fair value loss on derivatives liabilities	22	(94,811)
Loss before income tax expenses		(142,648)
Income tax expenses	20	(10,219)
Net loss attributable to Bigo Inc		(152,867)
Accretion to Preferred Shares redemption value	22	(22,952)
Net loss attributable to common shareholders		(175,819)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018 (CONTINUED)
(All amounts in thousands, except share and per share data)

	Note	For the year ended December 31, 2018 US$
Net loss		(152,867)
Other comprehensive loss:		
Foreign currency translation adjustment, net of nil tax		(924)
Total comprehensive loss attributable to Bigo Inc		(153,791)

(1) Share-based compensation was allocated in cost of revenues and operating expenses as follows:

		For the year ended December 31, 2018 US$
Research and development expenses		14,351
General and administrative expenses		2,364
Cost of revenues	19	977
Sales and marketing expenses		266

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT FOR THE YEARS ENDED DECEMBER 31, 2018

(All amounts in thousands, except share and per share data)

	Notes	Common shares		Additional paid-in capital	Statutory reserves	Accumulated deficits	Accumulated other comprehensive income	Total shareholders' deficit
		Number of shares	Amount					
			US$	US$	US$	US$	US$	US$
Balance as of December 31, 2017		604,078,125	6	-	-	(395,171)	4,796	(390,369)
Issuance of common shares for vested restricted shares	21	10,125,000	-	-	-	-	-	-
Issuance of common shares for vested restricted share units	21	14,089,600	-	-	-	-	-	-
Share-based compensation- restricted shares	23	-	-	331	-	-	-	331
Share-based compensation- restricted share units	23	-	-	17,627	-	-	-	17,627
Accretion of Preferred Shares to redemption value	22	-	-	(17,958)	-	(4,994)	-	(22,952)
Deemed contribution due to modification of preferred shares	22	-	-	-	-	28,871	-	28,871
Appropriation to statutory reserves		-	-	-	845	(845)	-	-
Components of comprehensive income								
Net loss attributable to Bigo Inc		-	-	-	-	(152,867)	-	(152,867)
Foreign currency translation adjustments, net of nil tax		-	-	-	-	-	(924)	(924)
Balance as of December 31, 2018		628,292,725	6	-	845	(525,006)	3,872	(520,283)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018
(All amounts in thousands, except share and per share data)

	Note	For the year ended December 31, 2018 US$
Cash flows from operating activities		
Net loss attributable to Bigo Inc		(152,867)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation of property and equipment	12	7,161
Amortization of acquired intangible assets	13	949
Impairment of intangible assets	13	106
Impairment of goodwill	14	2,420
Loss on disposal of property and equipment		10
Share-based compensation	23	17,958
Interest expense		213
Investment income		(45)
Fair value change of derivative liabilities	22	94,811
Foreign currency exchange losses, net		2,046
Deferred income tax, net	20	(97)
Changes in operating assets and liabilities		
Accounts receivable, net		(13,191)
Prepayments and other assets		(14,794)
Amounts due from related parties		(420)
Prepayment and other non-current assets		(693)
Amounts due to a related party		(1,090)
Accounts payable		(246)
Deferred revenue		4,877
Accrued liabilities and other current liabilities		60,548
Income taxes payable	20	10,316
Net cash provided by operating activities		17,972
Cash flows from investing activities		
Maturities of short-term deposits		89,900
Placements of short-term investments		(20,000)
Purchase of property and equipment		(25,646)
Purchase of intangible assets		(1,509)
Loan to a third party	15	(418,500)
Loan to a related party	24	(10,047)
Acquisition of businesses, net of cash and cash equivalents acquired	4	(1,231)
Payment on behalf of related parties, net of repayment		(644)
Cash paid for other non-current assets		(790)
Proceeds from disposal of property and equipment		8
Net cash used in investing activities		(388,459)
Cash flows from financing activities		
Proceeds from issuance of preferred shares	22	365,000
Loan from a related party	24	27,448
Repayment of loan to a related party	24	(3,166)
Net cash provided by financing activities		389,282
Net increase in cash and cash equivalents and restricted cash		18,795
Cash and cash equivalents and restricted cash at the beginning of the year		29,437
Effect of exchange rate changes on cash and cash equivalents and restricted cash		(2,188)
Cash and cash equivalents and restricted cash at the end of the year		46,044

	Note	For the year ended December 31, 2018 US$
Supplemental disclosure of cash flows information:		
-Cash paid for interest, net of amounts capitalized		(7)
-Acquisition of property and equipment in form of accounts payable	16	8,486

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and principal activities

(a) Organization and principal activities

Bigo Inc (“Bigo” or the "Company") is a holding company incorporated in Cayman Islands on April 1, 2015 and conducts its business through its subsidiaries, and its variable interest enterprise (“VIE”) (collectively, the “Group”). The Group is principally engaged in video and audio broadcast through its live-streaming apps and platforms (the “Business”) all over the world. In providing these services, the Group has cooperated with talent agencies to assist the Group in broadcaster recruitment, live streaming training and support, promotion strategies development and content management and discipline under the Group’s guidance and supervision. The Group generates the majority of its revenue from sales of virtual items in live streaming platforms.

(b) History and reorganization

YY Inc. (“YY”), a NASDAQ listed company, developed and launched a mobile application called Weihui in 2014. Users of this application can make telephone calls with other users free of charge. In October 2014, YY entered into an agreement with its CEO, Mr. David Xueling Li, to inject Weihui into Bigo Technology Pte. Ltd. (“Bigo Singapore”), a company set up in Singapore on 11 September 2014 and controlled by Mr. David Xueling Li. YY and Mr. David Xueling Li agreed that Weihui shall be priced at a consideration of US$6 million in form of preferred shares. On December 19, 2014, Bigo Singapore issued 156,000,000 common shares to YYME Limited (“YYME”), a company controlled by Mr. David Xueling Li, for a cash consideration of US$15.6 million and 60,000,000 Series A preferred shares (“Series A”) to Duowan Entertainment Corp (“Duowan”), a subsidiary of YY, for injection of Weihui as aforementioned.

Mr. David Xueling Li (the “Founder” or the “CEO”) set up Guangzhou Baiguoyuan Network Technology Co., Ltd., (“Baiguoyuan Network”) in the PRC in December 2014 and began its operations and thereof provided massive free-of-charge voice calls from mobile devices via the Internet to other devices or telephones/smartphones in the PRC in December 2014. Baiguoyuan Network holds the necessary licenses and approvals to operate internet-related businesses in the PRC. In March 2016, Baiguoyuan Network launched an audio live streaming mobile app, HELLO, which focused on its business in China.

For the period between April 2015 and May 2015 (“Reorganization Period”), the Group undertook a reorganization (the “Reorganization”).

On April 1, 2015, the Company, an investment holding company under the Laws of the Cayman Islands, was established. And then the Company purchased all the equity interests in the Bigo Singapore and issued 650,000,000 common shares to YYME and 250,000,000 Series A preferred shares to Duowan.

Pursuant to the applicable PRC laws and regulations, foreign investors are restricted from internet content services or holding equity interest in an entity conducting such services in China. In order to enable investments be made into the Group’s Business in the PRC, Bigo (Hong Kong) Limited (“Bigo HK”), a Hong Kong incorporated company wholly owned by the Bigo Singapore, was established on April 28, 2015 as well. A series of contractual arrangements (the “Contractual Arrangements”) were signed on May 19, 2015, among Baiguoyuan Network, its shareholder and Bigo HK, through which Bigo HK became the primary beneficiary and exercised effective control over the operations of Baiguoyuan Network.

Upon the completion of the Reorganization, the Company became the holding company of the other companies comprising the Group.

On June 18, 2015, Mr. David Xueling Li, the sole shareholder of Baiguoyuan Network, transferred 1% of the equity interest in Baiguoyuan Network to Mr. Jianqiang Hu (“CTO”).

On October 23, 2015, the Group set up Guangzhou Baiguoyuan Information Technology Co., Ltd. (“Baiguoyuan Information”), a wholly-owned foreign enterprise (“WOFE”) in the PRC owned by Bigo HK. In January 2016, a supplemental agreement, related to the Contractual Arrangements, was signed among Baiguoyuan Information, Baiguoyuan Network, and its shareholders, and Bigo HK to transfer the related rights and obligation of those Contractual Arrangement from Bigo HK to Baiguoyuan Information. Therefore, Baiguoyuan Information became the primary beneficiary and exercised effective control over the operations of Baiguoyuan Network.

(All amount in thousands, except share and per share data, unless otherwise stated)

1. Organization and principal activities (continued)

(b) History and reorganization (continued)

In March 2016, Bigo Singapore launched a global live streaming mobile app, BIGO LIVE, which is available on App store, Android Apk, and Google Play, and since then, The Group began its worldwide operations of live streaming business.

(c) Principal subsidiaries and VIEs

The details of the principle subsidiaries and VIE as of December 31, 2018 are set out as below:

Name	Place of incorporation	Date of Incorporation	% of direct or indirect economic ownership	Principal Activities
Subsidiaries				
Bigo Technology Pte. Ltd. (“Bigo Singapore”)	Singapore	September 11, 2014	100%	Investment holding, operation of live streaming platform
Bigo (Hong Kong) Limited (“Bigo HK”)	Hong Kong	April 28, 2015	100%	Investment holding
Guangzhou Baiguoyuan Information Technology Co., Ltd. (“Baiguoyuan Information”)	PRC	October 23, 2015	100%	Software development and provision of information technology services
Variable Interest Entity				
Guangzhou Baiguoyuan Network Technology Co., Ltd. (“Baiguoyuan Network”)	PRC	December 17, 2014	100%	Holder of internet content provider licenses and internet value added services

1. Organization and principal activities (continued)

(d) Variable Interest Entities

VIE agreements amongst Baiguoyuan Information, Baiguoyuan Network and its nominee shareholders

In May 2015, Bigo HK entered into a series of contractual agreements with Baiguoyuan Network and its nominee shareholders, through which Bigo HK became the primary beneficiary and exercised effective control over the operations of Baiguoyuan Network. In January 2016, a supplemental agreement, related to the Contractual Arrangements, was signed among Baiguoyuan Information, Baiguoyuan Network, and its shareholders, and Bigo HK to transfer the related rights and obligation of those Contractual Arrangement from Bigo HK to Baiguoyuan Information. Therefore, Baiguoyuan Information became the primary beneficiary and exercised effective control over the operations of Baiguoyuan Network. The contractual agreements are as below:

- Exclusive Business Cooperation Agreement

  Under the exclusive business cooperation agreement between Baiguoyuan Information and Baiguoyuan Network, Baiguoyuan Information has the exclusive right to provide to Baiguoyuan Network technology support, business support and consulting services related to the services provided by Baiguoyuan Network, the scope of which is to be determined by Baiguoyuan Information from time to time. Baiguoyuan Information owns the exclusive intellectual property rights created as a result of the performance of this agreement. Baiguoyuan Information receives substantially all of the economic interest returns generated by Baiguoyuan Network. The term of this agreement will not expire unless with Baiguoyuan Information's written confirmation to terminate the agreement.

- Exclusive Option Agreement

  The parties to the exclusive option agreement are Baiguoyuan Information, Baiguoyuan Network and each of the shareholders of Baiguoyuan Network. Under the exclusive option agreement, each of the shareholders of Baiguoyuan Network irrevocably granted Baiguoyuan Information or its designated representative(s) an exclusive option to purchase, to the extent permitted under the PRC laws, all or part of his or its equity interests in Baiguoyuan Network. Baiguoyuan Information or its designated representative(s) have sole discretion as to when to exercise such options, either in part or in full. Without Baiguoyuan Information's prior written consent, Baiguoyuan Network's shareholders shall not sell, transfer, mortgage or otherwise dispose their equity interests in Baiguoyuan Network. The term of this agreement is ten years and may be extended at Baiguoyuan Information's sole discretion.

- Powers of Attorney

  Pursuant to the irrevocable power of attorney executed by each shareholder of Baiguoyuan Network, each such shareholder appointed Baiguoyuan Information as its attorney-in-fact to exercise such shareholders' rights in Baiguoyuan Network, including, without limitation, the power to vote on its behalf on all matters of Baiguoyuan Network requiring shareholders' approval under the PRC laws and regulations and the articles of association of Baiguoyuan Network. Each power of attorney will remain in force until the shareholder ceases to hold any equity interest in Baiguoyuan Network.

- Share Pledge Agreement

  Pursuant to the share pledge agreement between Baiguoyuan Information and the shareholders of Baiguoyuan Network, the shareholders of Baiguoyuan Network have pledged all of their equity interests in Baiguoyuan Network to Baiguoyuan Information to guarantee the performance by Baiguoyuan Network and its shareholders' performance of their respective obligations under the exclusive business cooperation agreement, exclusive option agreement and powers of attorney. If Baiguoyuan Network and/or its shareholders breach their contractual obligations under those agreements, Baiguoyuan Information, as pledgee, will be entitled to voting right and the right to sell the pledged equity interests.

1. Organization and principal activities (continued)

(d) Variable Interest Entities (continued)

VIE agreements amongst Baiguoyuan Information, Baiguoyuan Network and its nominee shareholders (continued)

The Company does not have any equity interest in Baiguoyuan Network. However, as a result of the Contractual Arrangements, the Company has rights to variable returns from its involvement with Baiguoyuan Network and has the ability to affect those returns through its power over Baiguoyuan Network and is considered to control Baiguoyuan Network. Consequently, the financial results of the VIE was included in the Group's consolidated financial statements.

Risks in relation to the VIE structure

Upon completion of the Reorganization, the Group's live audio business, part of live video business and telecommunication business have been conducted through Baiguoyuan Network. Baiguoyuan Information has become the primary beneficiary of Baiguoyuan Network through contractual arrangements. In the opinion of management, the contractual arrangements with the VIE and the nominee shareholders are in compliance with the PRC laws and regulations and are legally binding and enforceable. However, there are substantial uncertainties regarding the interpretation and application of the PRC laws and regulations including those that govern the contractual arrangements, which could limit the Group's ability to enforce these contractual arrangements and if the nominee shareholders of the VIE were to reduce their interests in the Group, their interest may diverge from that of the Group and that may potentially increase the risk that they would seek to act contrary to the contractual arrangements. In January 2015, the Ministry of Commerce ("MOFCOM"), released for public comment a proposed PRC law, the Draft Foreign Investment Enterprises ("FIE") Law, that appears to include VIE within the scope of entities that could be considered to be FIEs, that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the Draft FIE Law introduces the concept of "actual control" for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the Draft FIE Law includes control through contractual arrangements within the definition of "actual control". If the Draft FIE Law is passed by the People's Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to include the Group's contractual arrangements with its VIE, and as a result, the Group's VIE could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIE Law includes provisions that would exempt from the definition of FIEs where the ultimate controlling shareholders are either entities organized under the PRC law or individuals who are the PRC citizens. The Draft FIE Law is silent as to what type of enforcement action might be taken against existing VIE, that operates in restricted or prohibited industries and is not controlled by entities organized under PRC law or individuals who are the PRC citizens. If the restrictions and prohibitions on FIEs included in the Draft FIE Law are enacted and enforced in their current form, the Group's ability to use the contractual arrangements with its VIE and the Group's ability to conduct business through the VIE could be severely limited. The Group's ability to control the VIE also depends on the power of attorney that the wholly owned subsidiary of the Group has to vote on all matters requiring shareholder approval in the VIE. As noted above, the Group believes these powers of attorney are legally enforceable but may not be as effective as direct equity ownership. In addition, if the Group's corporate structure and the contractual arrangements with the VIE through which the Group conducts its business in the PRC were found to be in violation of any existing or future PRC laws and regulations, the Group's relevant PRC regulatory authorities could:

- revoke or refuse to grant or renew the Group's business and operating licenses;
- restrict or prohibit related party transactions between the wholly owned subsidiary of the Group and the VIE;
- impose fines, confiscate income or other requirements which the Group may find difficult or impossible to comply with;
- require the Group to alter, discontinue or restrict its operations;
- restrict or prohibit the Group's ability to finance its operations, and;
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business.

1. Organization and principal activities (continued)

(d) Variable interest entities (continued)

Risks in relation to the VIE structure (continued)

The imposition of any of these restrictions or actions could result in an adverse effect on the Group's ability to conduct its business. In such case, the Group may not be able to operate or control the VIE, which may result in deconsolidation of the VIE in the Group's consolidated financial statements. In the opinion of management, the likelihood for the Group to lose such ability is remote based on current facts and circumstances. The Group's operations depend on the VIE to honor their contractual arrangements with the Group. These contractual arrangements are governed by the PRC law and disputes arising out of these agreements are expected to be decided by arbitration in the PRC. The management believes that each of the contractual arrangements constitutes valid and legally binding obligations of each party to such contractual arrangements under the PRC laws. However, the interpretation and implementation of the laws and regulations in the PRC and their application to an effect on the legality, binding effect and enforceability of contracts are subject to the discretion of competent PRC authorities, and therefore there is no assurance that relevant PRC authorities will take the same position as the Group herein in respect of the legality, binding effect and enforceability of each of the contractual arrangements. Meanwhile, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to the Group to enforce the contractual arrangements should the VIE or the nominee shareholders of the VIE fail to perform their obligations under those arrangements.

The following table sets forth the assets, liabilities, results of operations and cash flows of the VIE and its subsidiaries taken as a whole, which were included in the Group’s consolidated balance sheets and consolidated statements of comprehensive loss. Transactions between the VIE and its subsidiaries are eliminated in the financial information presented below:

(All amount in thousands, except share and per share data, unless otherwise stated)

1. Organization and principal activities (continued)

(d) Variable interest entities (continued)

Risks in relation to the VIE structure (continued)

	As of December 31, 2018
	US$
Assets	
Current assets	
Cash and cash equivalents	8,075
Restricted cash and cash equivalents	1,020
Accounts receivable, net	3,181
Prepayments and other current assets	6,678
Amounts due from related parties	576
Total current assets	19,530
Non-current assets	
Property and equipment, net	9,975
Intangible assets, net	562
Deferred tax assets	1,439
Prepayments and other non-current assets	1,279
Total non-current assets	13,255
Total assets	32,785
Liabilities	
Current liabilities	
Accounts payable	1,869
Deferred revenue	3,154
Accrued liabilities and other current liabilities	42,552
Income tax payable	7,421
Amounts due to a related party	24,978
Total current liabilities	79,974
Non-current liabilities	
Deferred revenue	238
Total non-current liabilities	238
Total liabilities	80,212

	For the year ended December 31, 2018
	US$
Net revenues	160,232
Net income	8,490

	For the year ended December 31, 2018
	US$
Net cash provided by operating activities	36,890
Net cash used in investing activities	(10,163)
Net cash provided by financing activities	24,282

1. Organization and principal activities (continued)

(e) Liquidity

As of December 31, 2018, the Group had shareholders' deficit of US$520,283 and net current liability of US$29,064. In addition, the net loss attributable to Bigo was US$152,867 for the year ended December 31, 2018.

The Group expect to require cash to fund its ongoing operational needs, particularly its bandwidth costs, salaries and benefits and potential acquisitions or strategic investments. The Group believes that its cash and the anticipated cash flow from operations will be sufficient to meet its anticipated cash needs for the next 12 months. However, the Group may require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions the Group may decide to selectively pursue. If its existing cash resources are insufficient to meet its requirements, the Group may seek to sell equity or equity-linked securities, debt securities or borrow from banks.

Based on the above considerations, the Group's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business.

2. Principal accounting policies

(a) Basis of presentation

The consolidated financial statements of the Group has been prepared in accordance with the U.S. GAAP to reflect the financial position, results of operations and cash flows of the Group. Significant accounting policies followed by the Group in the preparation of the consolidated financial statements are summarized below.

(b) Consolidation

The Group’s consolidated financial statements include the financial statements of the Company, its subsidiaries and VIE for which the Company or its subsidiary is the primary beneficiary. All transactions and balances among the Company, its subsidiaries and VIE have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting powers; or has the power to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meeting of directors; or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiaries are the primary beneficiary, the Company considered whether it has the power to direct activities that are significant to the VIE’s economic performance, and also the Company’s obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Baiguoyuan Information and ultimately the Company hold all the variable interests of the VIE and has been determined to be the primary beneficiary of the VIE.

(c) Use of estimates

The preparation of the Company’s consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, related disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period in the consolidated financial statements and accompanying notes. Actual results could differ materially from such estimates. The Company believes that assessment of whether the Group acts as a principal or an agent in different revenue streams, the determination of estimated selling prices of multiple element revenue contracts, income taxes, determination of share-based compensation expenses, represent critical accounting policies that reflect more significant judgments and estimates used in the preparation of its consolidated financial statements.

Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

2. Principal accounting policies (continued)

(d) Foreign currency translation

The Group uses United States dollar ("US$") as its reporting currency. The functional currency of the Company and the Company's primary subsidiaries incorporated oversea is US$, while the Company's primary subsidiaries and VIE incorporated in the PRC considered Renminbi ("RMB") as their functional currency. In the consolidated financial statements, the financial information of its subsidiaries and VIE in the PRC, which use RMB as their functional currency, have been translated into US$. Assets and liabilities are translated at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average exchange rate for the period. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of other comprehensive income in the statement of comprehensive income.

Foreign currency transactions denominated in currencies other than functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from remeasurement at year-end are recognized in foreign currency exchange gains/losses, net in the consolidated statement of comprehensive income.

(e) Cash and cash equivalents

Cash includes currency on hand and deposits held by financial institutions that can be added to or withdrawn without limitation. Cash equivalents represent short-term and highly liquid investments placed with banks, which have both of the following characteristics:

i) Readily convertible to known amounts of cash throughout the maturity period;

ii) So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

The Group considers all highly liquid investments with original maturities of three months or less as cash equivalents.

In November 2016, the FASB issued new guidance related to the classification of restricted cash in the statement of cash flows. The new standard requires that a statement of cash flows explain any change during the year in total cash, cash equivalents, and restricted cash. The new standard is effective for fiscal years beginning after December 15, 2017, and should be applied retrospectively. The Company adopted the new standard during the beginning of 2018 and applied the standard retrospectively for all periods presented. Cash, cash equivalents and restricted cash presented on the consolidated statements of cash flows included cash and cash equivalents and restricted short-term deposits in the consolidated balance sheets. As of December 31, 2018, cash, cash equivalents and restricted cash presented in the consolidated statement of cash flows is 46,044, including cash and cash equivalents of US$44,840, restricted cash and cash equivalents of US$1,020 and restricted short-term deposits of US$184 in the consolidated balance sheet, respectively.

(f) Short-term deposits

Short-term deposits represent time deposits placed with banks with original maturities of less than one year. Interest earned is recorded as interest income in the consolidated statement of comprehensive income during the periods presented.

(g) Short-term investments

For investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Company elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

2. Principal accounting policies (continued)

(h) Accounts receivable

Accounts receivable are stated at the historical carrying amount net of allowance for doubtful accounts. The Group uses specific identification in providing for bad debts when facts and circumstances indicate that collection is doubtful and a loss is probable and estimable. If the financial conditions of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

The Group maintains an allowance for doubtful accounts which reflects its best estimate of amounts that potentially will not be collected. The Company determines the allowance for doubtful accounts on an individual basis taking into consideration various factors including but not limited to historical collection experience and credit-worthiness of the debtors as well as the age of the individual receivables balance. Additionally, the Company makes specific bad debt provisions based on any specific knowledge the Company has acquired that might indicate that an account is uncollectible. The facts and circumstances of each account may require the Company to use substantial judgment in assessing its collectability.

(i) Property and equipment

Servers, computers and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated using the straight-line method over their estimated useful lives. Salvage value rate is determined based on the economic value of the property and equipment at the end of the estimated useful lives as a percentage of the original cost.

	Estimated useful lives	Salvage value rate
Servers, computers and equipment	3-5 years	0%-5%

Expenditures for maintenance and repairs are expensed as incurred. The gain or loss on the disposal of servers, computers and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statement of comprehensive loss.

(j) Business combination

Business combinations are recorded using the purchase method of accounting, and the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of consideration of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the subsidiary acquired over (ii) the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the consideration of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive income.

(k) Intangible assets

Intangible assets mainly consist of software, domain names and user bases. Identifiable intangible assets are carried at acquisition cost less accumulated amortization and impairment loss, if any. Finite-lived intangible assets are tested for impairment if impairment indicators arise. Amortization of finite-lived intangible assets is computed using the straight-line method over their estimated useful lives, which are as follows:

	Estimated useful lives
Software	1-10 years
Domain names	10 years
User bases	5 years

2. Principal accounting policies (continued)

(l) Impairment of long-lived assets

The Group evaluates for impairment whenever events or changes (triggering events) indicate that the carrying amount of an asset may no longer be recoverable. The Group assesses the recoverability of the long-lived assets by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to receive from use of the assets and their eventual disposition. Such assets are considered to be impaired if the sum of the expected undiscounted cash flows is less than the carrying amount of the assets. The impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Group tests impairment of long-lived assets at the reporting unit level when impairment indicator appeared and recognizes impairment in the event that the carrying value exceeds the fair value of each reporting unit. For the year reported, the Group has only one reporting unit.

The impairment charges of intangible assets recorded in general and administrative expenses for the years ended December 31, 2018 were amounting to US$106.

(m) Goodwill

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the assets acquired and the liabilities assumed of an acquired business.

(n) Annual test for impairment of Goodwill

Goodwill assessment for impairment is performed on at least an annual basis on October 1 or whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Group performs a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of the fair value of each reporting unit.

(o) Mezzanine equity

Mezzanine equity represents the Preferred Shares issued by the Company. The Preferred Shares (defined in Note 22) are redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company's control. Therefore, the Group classifies the Preferred Shares as mezzanine equity (Note 22).

In accordance with ASC 480-10, the mezzanine equity was initially measured based on its fair value at date of issue. Since the Preferred Shares will be redeemable at the holder's option after several years from issuance if the Preferred Shares are not converted, either voluntarily or automatically upon a Qualified IPO. The Company accretes changes in the redemption value over the period from the date of issuance to the earliest redemption date of the instrument using an appropriate method, usually the interest method.

According to ASC-480-10-S99-2, where fair value at date of issue is less than the mandatory redemption amount, the carrying amount shall be increased by periodic accretions, using the interest method, so that the carrying amount will equal the mandatory redemption amount at the mandatory redemption date. Each type of increase in carrying amount shall be recorded as charges against retained earnings or, in the absence of retained earnings, by charges against additional paid-in capital. As such, the accretion to the carrying amount of preferred share is recognized at minimum rate per annum of issuance price and plus the dividend declared.

2. Principal accounting policies (continued)

(o) Mezzanine equity (continued)

Moreover, according to ASC 480-10-S99-3A, the amount presented in temporary equity should be no less than the initial amount reported in temporary equity for the instrument. That is, reductions in the carrying amount of a redeemable equity instrument are appropriate only to the extent that the registrant has previously recorded increases in the carrying amount of the redeemable equity instrument.

(p) Revenue recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which amends the existing accounting standards for revenue recognition.

In August 2015, the FASB issued ASU No.2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new standard further requires new disclosures about contracts with customers, including the significant judgments the company has made when applying the guidance.

Company early adopted the new standard on January 1, 2017, using the modified retrospective method applied to those contracts with unrecognized revenue on the adoption date. Company finalized the ASC 606 assessment and the adoption of this guidance did not have any significant impact on the Group's consolidated financial statements.

The Group enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities**.**

(i) Live streaming

The Group is principally engaged in operating its own live streaming platforms all over the world, which enable broadcasters and viewers to interact with each other during live streaming. It generates revenue from sales of virtual items in the platforms. The Group has a recharge system for users to purchase the Group's virtual currency then purchase virtual items for use. Users can recharge via various online third-party payment platforms, including Apple Pay, Google Pay, WeChat Pay, AliPay and other payment platforms. Virtual currency is non-refundable and without expiry. As the virtual currency is often consumed soon after it is purchased based on history of turnover of the virtual currency, the Group considers it does not expect to be entitled to a breakage amount for the virtual currency. Unconsumed virtual currency is recorded as deferred revenue. Virtual currencies used to purchase virtual items are recognized as revenue according to the prescribed revenue recognition policies of virtual items addressed below unless otherwise stated. The Group shares a portion of the sales proceeds of virtual items ("revenue sharing fee") with broadcasters and talent agencies in accordance with their revenue sharing arrangements. Broadcasters, who do not have revenue sharing arrangements with the Group, are not entitled to any revenue sharing fee.

2. Principal accounting policies (continued)

(p) Revenue recognition(continued)

(i) Live streaming (continued)

The Group evaluates and determines that it is the principal and views users to be its customers. The Group reports live streaming revenues on a gross basis. Accordingly, the amounts billed to users are recorded as revenues and revenue sharing fee paid to broadcasters and talent agencies are recorded as cost of revenues. Where the Group is the principal, it controls the virtual items and the live streaming performance of the broadcasters before they are transferred to users. Its control is evidenced by the Group's sole ability to monetize the virtual items and its sole ability to monitor the content of the performance and the payment system of the broadcasters before virtual items and the entertainment services are transferred to users, and is further supported by the Group being primarily responsible to users and having a level of discretion in establishing pricing.

The Group designs, creates and offers various virtual items for sales to users with pre-determined stand-alone selling price. Sales proceeds are recorded as deferred revenue and recognized as revenue based on the consumption of the virtual items. Virtual items are categorized as consumable and time-based items. Consumable items are consumed upon purchase and use while time-based items could be used for a fixed period of time. Users can purchase and present consumable items to broadcasters to show support for their favorite broadcasters, or purchase time-based virtual items for one or multiple months for a monthly fee, which provide users with recognized status, such as priority speaking rights or special symbols over a period of time. Revenue related to each of consumable items as a single performance obligation provided on a consumption basis, is recognized overtime, in a very short period of time as the special effects of the consumable virtual items are simply in a split second, since the criteria under ASC 606-10-25-27a is met. Upon the confirmation of the purchase, the consumable virtual item is transferred directly to the users for immediate consumption after the purchase. It is the timing when the Group satisfies its performance obligation since the users simultaneously receives and consumes the benefits from using the consumable items to show support and draw broadcasters' attention, which means the users obtain the control of the virtual items as BIGO performs. And revenue related to time-based virtual items provided on a subscription basis is recognized ratably over the contract period. The Group does not have further performance obligations to the user after the virtual items are consumed immediately or after the stated contract period of time for time-based items.

The Group may also enter into contracts that can include various combinations of virtual items, which are generally capable of being distinct and accounted for as separate performance obligations, such as Noble Member Program. Determining whether those virtual items are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The contract of Noble Member Program, which is normally purchased on a monthly basis, includes three major virtual items, a) the noble member status, b) the virtual items, and c) the right of subsequent renewal at a discounted price, which are considered distinct and accounted for separately under ASC 606. A noble member status itself cannot be purchased on a standalone basis, and it is used for one month but the users can simultaneously purchase multiple months of the package at any point in time. Judgment is required to determine standalone selling price for each distinct performance obligation and the Group then allocates the arrangement consideration to the separate accounting of each distinct performance obligation based on their relative standalone selling prices. In instances where standalone selling price is not directly observable as the Group does not sell the virtual item separately, such as the noble member status and the virtual items, the Group determines the standalone selling price based on pricing strategies, market factors and strategic objectives. In respect of the right of subsequent renewal at a discounted price, the Group estimates individual user's times of renewal based on historical data of users' spending pattern and average times of renewal. The Group recognizes revenue for each of the distinct performance obligations identified in accordance with the applicable revenue recognition method relevant for that obligation. For revenue allocated to noble member status, it is generally recognized ratably over the contract period as users simultaneously consume and receive benefits. For revenue related to virtual items provided on a consumption basis, virtual items used to consume are recognized as revenue according to the prescribed revenue recognition policies of virtual items addressed above unless otherwise stated. For the right of subsequent renewal at a discounted price, upon each time a subsequent renewal is purchased, the cash received is recorded as deferred revenue and allocated proportionally to the noble member status and the virtual items based on their relative standalone selling prices and revenue is then recognized following the revenue method of noble member status and virtual items as described above.

As the Group's live streaming virtual items are generally sold without right of return and the Group does not provide any other credit and incentive to its users, therefore accounting of variable consideration when estimating the amount of revenue to recognize is not applicable to the Group's live streaming business.

(All amount in thousands, except share and per share data, unless otherwise stated)

2. Principal accounting policies (continued)

(p) Revenue recognition (continued)

(ii) Others

Other revenues mainly include mini karaoke booth service, telecommunication and technical service revenue. Revenue is agreed at contractual price and recognized over the period upon the service is delivered.

(iii) Disaggregation of Revenues

The following table disaggregates the Group's revenue for the years ended December 31, 2018 by nature and by geographic location:

	For the year ended December 31, 2018
	US$
Revenues attributed to the nature	
Video live streaming	297,256
Audio live streaming	159,394
Others	1,484
Total	458,134

	For the year ended December 31, 2018
	US$
Revenues attributed to the geographic location	
Asia - PRC	165,469
Asia - Others	232,430
Others	60,235
Total	458,134

(q) Performance Obligations

Contract liabilities primarily consists of deferred revenue for unconsumed virtual items and unamortized revenue from virtual items in the Group's platforms, where there is still an obligation to be provided by the Group, which will be recognized as revenue when all of the revenue recognition criteria are met.

The deferred revenue for the performance obligations amounted to US$8,726 as of December 31, 2018, out of which US$8,477 was expected to be recognized as revenue within one year and US$ 249 was expected to be recognized as revenue between one to two years (Note 17). And during the years ended December 31, 2018, the Group recognized revenue amounted to US$3,849 that was included in the corresponding deferred revenue balance at the beginning of the year.

2. Principal accounting policies (continued)

(r) Cost of revenues

Amounts recorded as cost of revenue relate to direct expenses incurred in order to generate revenue. Such costs are recorded as incurred. Cost of revenues consists primarily of (i) revenue sharing fees and content costs, including payments to various broadcasters, and content providers, (ii) payment handling cost, (iii) salaries and welfare, (iv) bandwidth costs, (v) depreciation and amortization expense, and (vi) other costs.

Incremental payment handling costs incurred to obtain the contracts are capitalized and amortized to cost of revenue over the life of the contract. Since Virtual currency is non-refundable and often consumed soon after it is purchased. Unconsumed virtual currency is recognized as deferred revenue and is generally expected to be consumed within one year. The Group apply the practical expedient to expense the payment handling costs to obtain the contracts as incurred since the expected amortization period is less than one year or less.

(s) Research and development expenses

Research and development expenses consist primarily of (i) salaries and welfare for research and development personnel, (ii) share-based compensation for research and development personnel, and (iii) depreciation and amortization expenses. Costs incurred during the research stage are expensed as incurred. Costs incurred in the development stage, prior to the establishment of technological feasibility, which is when a working model is available, are expensed when incurred.

The Company recognizes software development costs in accordance with guidance on intangible assets and internal use software. This requires capitalization of qualifying costs incurred during the software's application development stage and to expense costs as they are incurred during the preliminary project and post implementation/operation stages. The Company has not capitalized any costs related to internal use software during the years ended December 31, 2018.

(t) Sales and marketing expenses

Sales and marketing expenses consist primarily of (i) advertising and market promotion expenses and (ii) salaries and welfare for sales and marketing personnel. The advertising and market promotion expenses amounted to US$136,339 for the years ended December 31, 2018.

(u) General and administrative expenses

General and administrative expenses consist primarily of (i) share-based compensation for management and administrative personnel, and (ii) salaries and welfare for general and administrative personnel.

(v) Employee social security and welfare benefits

Employees of the Group in the PRC are entitled to staff welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated multi-employer defined contribution plan. The Group is required to accrue for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group is required to make contributions to the plans out of the amounts accrued. The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and the Group's obligations are limited to the amounts contributed and no legal obligation beyond the contributions made. Employee social security and welfare benefits included as expenses in the accompanying statement of comprehensive loss amounted to US$9,987 for the years ended December 31, 2018.

2. Principal accounting policies (continued)

(w) Share-based compensation

Share-based compensation expense arises from share-based awards, mainly including restricted share units and restricted shares granted by Bigo with its own underlying shares to certain management and other key employees who to some extent provide services to the Group ("Bigo’s Share-based Awards”).

Share-based compensation expense for restricted share units and restricted shares granted to employees of the Group is measured based on their grant-date fair values and recognized using the graded vesting method, net of estimated forfeiture rates, over the requisite service period, which is generally the vesting period. Forfeitures are estimated at the time of grant based on historical forfeiture rates and will be revised in the subsequent periods if actual forfeitures differ from those estimates.

Awards granted to non-employees are initially measured at fair value on the grant date and periodically remeasured thereafter until the earlier of the performance commitment date or the date the service is completed and recognized over the period the service is provided. Awards are remeasured at each reporting date using the fair value as at each period end until the measurement date, generally when the services are completed and share-based awards are vested. Changes in fair value between the interim reporting dates are recorded in consistent with the method used in recognizing the original compensation costs.

ASU 2017-09, Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting, provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718.

An entity should account for the effects of a modification unless all the following are met:

- The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.

- The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.

- The classification of the modified award as an equity instrument or a liability instrument is the same as the classification immediately before the original award is modified.

The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this ASU 2017-09.

The Company adopted this amendments to Subtopic 718-10 and there was no impact on the consolidated financial statements for the year ended December 31, 2018 as the Company did not change the terms and conditions of a share-based payment award during the years presented.

2. Principal accounting policies (continued)

(x) Other income

Other income primarily consists of government grants which represent cash subsidies received from the PRC government by the Group entities. Government grants are originally recorded as deferred revenue when received upfront. After all of the conditions specified in the grants have been met, the grants are recognized as operating income.

(y) Leases

Each lease is classified at the inception date as either a capital lease or an operating lease. For the lessee, a lease is a capital lease if any of the following conditions exist: a) ownership of the leased property is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the leased property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the leaser at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases. Payments made under operating lease are charged to the consolidated statement of comprehensive loss on a straight-line basis over the term of underlying lease. The Group has no capital lease for any of the periods presented.

(z) Income taxes

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are accounted for using an asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. The effect on deferred taxes of a change in tax rates is recognized in statement of comprehensive loss in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Uncertain tax positions

The guidance on accounting for uncertainties in income taxes prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group’s uncertain tax positions and determining its provision for income taxes. The Group recognizes interests and penalties, if any, under accrued expenses and other current liabilities on its balance sheet and under other expenses in its statement of comprehensive loss. The Group did not recognize any interest and penalties associated with uncertain tax positions for the years ended December 31, 2018. As of December 31, 2018, the Group did not have any significant unrecognized uncertain tax positions.

Adoption of ASU 2016-16

In October 2016, the FASB issued ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (Topic 740). This standard will require entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time of transfer. This standard requires a modified retrospective approach to adoption. The Company adopted ASU 2016-16 as of January 1, 2018 using a modified retrospective transition method, no reclassification of prepaid income taxes related to asset transfers that occurred prior to adoption from other current and non-current assets to opening retained earnings.

2. Principal accounting policies (continued)

(aa) Statutory reserves

The Group's PRC entities are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to China's Foreign Investment Enterprises, the Group's subsidiaries registered as wholly-owned foreign enterprises have to make appropriations from its after-tax profit (as determined under the Accounting Standards for Business Enterprises as promulgated by the Ministry of Finance of the People's Republic of China ("PRC GAAP")) to reserve funds including general reserve fund, and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the company. Appropriation to the staff bonus and welfare fund is at the company's discretion.

In addition, in accordance with the Company Laws of the PRC, the Group's entities registered as the PRC domestic companies must make appropriations from its after-tax profit as determined under PRC GAAP to non-distributable reserve funds including a statutory surplus fund and a discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the after-tax profits as determined under PRC GAAP. Appropriation is not required if the surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the company.

The use of the general reserve fund, statutory surplus fund and discretionary surplus fund are restricted to the off-setting of losses or increasing capital of the respective company. The staff bonus and welfare fund is a liability in nature and is restricted to fund payments of special bonus to staff and for the collective welfare of employees. All these reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

During the year ended December 31, 2018, appropriations to general reserve fund and statutory surplus fund amounted to US$845.

(bb) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence, such as a family member or relative, shareholder, or a related corporation.

(cc) Dividends

Dividends are recognized when declared. No dividends were declared for the years ended December 31, 2018. The Group does not have any present plan to pay any dividends on common shares in the foreseeable future. The Group currently intends to retain the available funds and any future earnings to operate and expand its business.

(dd) Segment reporting

Operating segments are defined as components of an enterprise engaging in businesses activities for which separate financial information is available that is regularly evaluated by the Group's chief operating decision makers ("CODM") in deciding how to allocate resources and assess performance. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group's revenue and net income are substantially derived from live streaming and others. The Group does not have discrete financial information of costs and expenses between various revenue streams in its internal reporting, and reports costs and expenses by nature as a whole. Therefore, the Group has one operating segment.

2. Principal accounting policies (continued)

(ee) Recently issued accounting pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases." Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. The Company will adopt the new standard using the optional transition method (from ASU 2018-11, Leases Targeted Improvements) for fiscal years and interim periods within 2019. As permitted under the transition guidance, the Company will carry forward the assessment of whether the existing contracts contain or are leases, classification of the leases and remaining lease terms. Based on the portfolio of leases as of December 31, 2018, approximately US$16,538 of lease assets and US$16,528 of liabilities will be recognized on the Company's balance sheet upon adoption, primarily relating to real estate.

In June 2016, the FASB issued ASU 2016-13: Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The management is currently evaluating the effect that the updated standard will have on the Company's consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04: Simplifying the Test for Goodwill Impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The management is currently evaluating the effect that the updated standard will have on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting: The amendments in this Update expand the scope of Topic 718 to include share based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (i) financing to the issuer or (ii) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company does not expect ASU 2018-07 to have a material impact to the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this standard will remove, modify and add certain disclosures under ASC Topic 820, Fair Value Measurement, with the objective of improving disclosure effectiveness. ASU 2018-13 will be effective for the Group's fiscal year beginning January 1, 2020, with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. The Company does not expect ASU 2018-13 to have a material impact to the Company's consolidated financial statements.

(All amount in thousands, except share and per share data, unless otherwise stated)

3. Certain risks

(a) Foreign exchange risk

The Group's PRC subsidiaries are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$. All of the transactions of the Company and its overseas subsidiaries are denominated and settled in their own functional currency, US$. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperated counterparties. The Group does not hedge against any fluctuation in foreign currency.

(b) Concentration risk

(i) Concentration of revenue

No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2018.

(ii) Concentration of accounts receivable

The Group collects accounts receivable from payment platforms. There were 3 payment platforms which had receivable balance exceeding 10% of the total accounts receivable balance of the Group as of December 31, 2018. Details are as follows:

	December 31, 2018
Payment platforms	
B1	18%
B2	16%
B3	12%

(c) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents and short-term deposits with banks and financial institution, and trade receivables.

To manage the credit risk, bank deposits are mainly placed with state-owned or reputable listed financial institutions in the PRC and reputable international financial institutions outside the PRC. There has been no recent history of default in relation to these financial institutions.

For trade receivables, management make periodic credit assessments as well as individual assessment on the recoverability of trade receivables.

(d) Liquidity risk

The Group aims to finance its operations with its own capital. It had borrowings and interest payable due to YY amounting to US$24,632 as of December 31, 2018 and it will be repaid within one year from the financial statement date. Since YY became the sole shareholder of BIGO on March 4, 2019 (Note 27 (c)), Management considers that the Group does not have significant liquidity risk.

(All amount in thousands, except share and per share data, unless otherwise stated)

4. Business combination

Acquisition of Beijing Jinhuan Technology Co., Ltd. ("Beijing Jinhuan")

On January 10, 2018, the Group acquired 100% of the equity interests of Beijing Jinhuan at a fixed cash consideration of US$2,643. The principal business of Beijing Jinhuan is the operation of video live streaming platform. The purpose of the acquisition was to expand the Group's own user bases through different types of video live streaming platforms. On the acquisition date, the allocation of the consideration of the assets acquired and liabilities assumed based on their fair value was as follows:

	US$
Net liabilities assumed	(100)
Identifiable intangible assets acquired	
- User bases	133
Goodwill	2,567
Foreign currency translation adjustment	43
Total	2,643

The business combination was completed on January 10, 2018. The excess of the purchase price over tangible assets, identifiable intangible assets acquired, and liabilities assumed was recorded as goodwill. The acquired identifiable intangible assets were valued by various approaches, including the income approach and the replacement cost approach, as appropriate. Acquisition related costs were immaterial and were included in general and administrative expenses for the year ended December 31, 2018.

Pro forma results of operations related to the acquisition have not been presented because they are not material to the Group's consolidated statements of operations and comprehensive income.

There were no indemnification assets involved. Total identifiable intangible assets acquired upon acquisition mainly included user bases which have an estimated useful life of five years. Total goodwill of US$2,567 primarily represents the expected synergies from combining operations of Beijing Jinhuan with those of the Group, which were expected to be complementary to each other. In accordance with ASC350, goodwill is not amortized but is tested for impairment and is not deductible for tax purposes.

5. Cash and cash equivalents

Cash and cash equivalents represent cash on hand and demand deposits placed with banks. Cash and cash equivalents balance as of December 31, 2018 primarily consist of the following currencies:

	December 31, 2018	
	Amount	US$ equivalent
US$	23,193	23,193
Indian Rupee	756,214	10,852
RMB	56,882	8,270
Singapore dollar	3,202	2,350
Vietnamese dong	3,789,514	164
Malaysian ringgit	45	11
Total		44,840

As of December 31, 2018, substantially all of the Group's cash and cash equivalents were held in reputable financial institutions located in the PRC, Singapore and India.

(All amount in thousands, except share and per share data, unless otherwise stated)

6. Restricted cash and cash equivalents

As of December 31, 2018, the Company had restricted bank account balance of RMB7,018 of approximately US$1,020 for share purchase payment.

7. Short-term deposits

Short-term deposits represent time deposits placed with banks with original maturities of less than one year. As of December 31, 2018, there was no short-term deposit.

8. Restricted short-term deposits

As of December 31, 2018, the Company had offshore restricted short-term deposits balance of Singapore dollar 250 set aside for a period of 12 months or less of approximately US$184 for corporate credit card authorized by bank.

9. Short-term investments

As of December 31, 2018, the Group's short-term investments in financial instruments were US$20,045. Since these investment's maturities are less than one year, they are classified as short-term investment. All of short-term investments as of December 31, 2018 are denominated in US$.

10. Accounts receivable, net

	December 31, 2018
	US$
Accounts receivable, gross	40,417
Less: allowance for doubtful receivables	-
Accounts receivable, net	40,417

11. Prepayments and other current assets

	December 31, 2018
	US$
Interests receivable	8,738
Prepayments to vendors and content providers	8,082
Advances to employee	796
Others	956
Total	18,572

(All amount in thousands, except share and per share data, unless otherwise stated)

12. Property and equipment, net

Property and equipment consists of the following:

	December 31, 2018
	US$
Gross carrying amount	
Servers, computers and equipment	43,317
Construction in progress	2,025
Total	45,342
Less: accumulated depreciation	(12,384)
Property and equipment, net	32,958

Depreciation expense for the years ended December 31, 2018 were US$7,161.

13. Intangible assets, net

The following table summarizes the Group's intangible assets:

	December 31, 2018
	US$
Gross carrying amount	
Software	2,405
Domain names	73
User bases	133
Total of gross carrying amount	2,611
Less: accumulated amortization	
Software	(1,365)
Domain names	(4)
User bases	(27)
Total accumulated amortization	(1,396)
Less: accumulated impairment	(106)
Intangible assets, net	1,109

Amortization expense for the years ended December 31, 2018 were US$949.

(All amount in thousands, except share and per share data, unless otherwise stated)

13. Intangible assets, net (continued)

The estimated amortization expenses for each of the following five years are as follows:

Year ended December 31,	Amortization expense of intangible assets US$
2019	570
2020	72
2021	72
2022	72
2023	72
Thereafter	251
Total	1,109

The weighted average amortization periods of intangible assets as of December 31, 2018 are as below:

	December 31, 2018
Software	3 years
Domain names	10 years
User bases	5 years

14. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2018 are as follows:

	Total US$
Balance as of December 31, 2017	-
Increase in goodwill related to acquisition (i)	2,567
Impairment charges (ii)	(2,420)
Foreign currency translation adjustment	(147)
Balance as of December 31, 2018	-

(i) In January 2018, the Company purchased 100% equity interest of Beijing Jinhuan. Goodwill of US$2,567 was recognized from this business acquisition.

Goodwill represents the synergy effects of the business combination.

(ii) The Group performs its annual goodwill impairment test as of October 1, or more frequently, if certain events or circumstances warrant. Events or changes in circumstances which might indicate potential impairment in goodwill include the company-specific factors, including, but not limited to, stock price volatility, market capitalization relative to net book value, and projected revenue, market growth and operating results.

In October 2018, it was noted that Beijing Jinhuan's financial and operational performance in the year of 2018 was behind the original budget resulting from unexpected fierce market competition. Accordingly, the Group performed an annual assessment on the goodwill impairment related to Beijing Jinhuan and recognized an estimated goodwill impairment charge of US$2,420.

(All amount in thousands, except share and per share data, unless otherwise stated)

15. Prepayments and other non-current assets

	December 31, 2018
	US$
Loan to a third party (i)	418,500
Prepayment related to purchase of fixed assets	2,732
Prepayment related to purchase of license	727
Others	840
Total	422,799

(i) Singularity IM, Inc. ("Singularity"), a Delaware corporation, borrowed US$ 500 on April 20, 2018, US$ 415,000 on June 4, 2018, US$ 3,000 on June 13, 2018 respectively, from the Company at an interest rate per annum equal to 3.6%, all with the maturity dates ten years after the borrowing dates. On March 1, 2019, the Group entered into a cancellation of indebtedness agreement with Singularity to waive the aforementioned loans plus all accrued and unpaid interest and treated such cancellation of indebtedness as a capital contribution from the Group to Singularity (Note 27).

16. Accounts Payable

	December 31, 2018
	US$
Payable related to purchase of fixed assets	8,486
Others	424
Total	8,910

17. Deferred revenue

	December 31, 2018
	US$
Deferred revenue, current:	
Live streaming	8,477
Total current deferred revenue	8,477
Deferred revenue, non-current:	
Live streaming	72
Others	177
Total non-current deferred revenue	249

(All amount in thousands, except share and per share data, unless otherwise stated)

18. Accrued liabilities and other current liabilities

	December 31, 2018
	US$
Marketing and promotion expenses	39,267
Revenue sharing fees	27,262
Salaries and welfare	18,538
Business and other taxes payable	10,441
Penalty	5,767
Bandwidth costs	5,002
Others	4,032
Total	110,309

19. Cost of revenues

	For the year ended December 31, 2018
	US$
Revenue sharing fees and content costs	155,758
Payment handling costs	65,800
Salaries and welfare	18,947
Bandwidth costs	16,682
Depreciation and amortization	6,462
Technical service fee	6,162
Share-based compensation	977
Others	12,539
Total	283,327

20. Taxation

(a) Goods and services tax/ value-added tax and related surcharges

The Group is subject to goods and services tax (“GST”)/ value-added tax (“VAT”) and related surcharges on the revenues earned for services provided in Singapore and the PRC.

(i) Singapore

Net revenues are presented after netting off the GST. The primary applicable rate of GST is 7% for the years ended December 31, 2018.

(ii) PRC

Net revenues are presented after netting off the VAT. The primary applicable rate of VAT is 6% for the years ended December 31, 2018. The surcharges are calculated based on 12% of VAT paid.

(b) Income taxes

(i) Cayman Islands

Under the current tax laws of Cayman Islands, the Company and its subsidiaries are not subject to tax on income or capital gains. Besides, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

20. Taxation (continued)

(b) Income taxes (continued)

(ii) Singapore

The income tax provision of the Group in respect of its international operations was calculated at the tax rate of 17% on the assessable profits for the year ended December 31, 2018, based on the existing legislation, interpretations and practices in respect thereof.

According to the Development and Expansion Incentive (the “Incentive”) pursuant to the provisions of Part IIIB of the Economic Expansion Incentives (Relief from Income Tax) Act, Chapter 86, corporations engaging in new high-value-added projects, expanding or upgrading their operations, or undertaking incremental activities after their pioneer period may apply for their profits to be taxed at a reduced rate of not less than 5% for an initial period of up to ten years. The total tax relief period for each qualifying project or activity is subject to a maximum of 40 years (inclusive of the post-pioneer relief period previously granted, if applicable).

The Group’s Singapore entities provided for income tax are as follows:

- Bigo Singapore applied for the Incentive and received approval in October 2018. Bigo Singapore is entitled to enjoy the beneficial tax rate of 5% as the Incentive for the years 2018 through 2022, and will need to re-apply for the Incentive qualification renewal in 2023.

- Other Singapore entities were subject to 17% income tax for the period reported.

(iii) Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the subsidiary of the Group in Hong Kong are subject to 16.5% Hong Kong profit tax on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiary incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

(iv) PRC

The Company’s subsidiaries and VIE in China are governed by the Enterprise Income Tax Law (“EIT Law”), which became effective on January 1, 2008. Pursuant to the EIT Law and its implementation rules, enterprises in China are generally subject to tax at a statutory rate of 25%. Certified High and New Technology Enterprises (“HNTE”) are entitled to a favorable statutory tax rate of 15%, but need to re-apply every three years. During this three year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% EIT rate.

20. Taxation (continued)

(b) Income taxes (continued)

(iv) PRC (continued)

The Group's PRC entities provided for enterprise income tax are as follows:

- Baiguoyuan Network and Baiguoyuan Information applied for the HNTE and received approval in December 2016 and November 2018, respectively. Baiguoyuan Network and Baiguoyuan Information are entitled to enjoy the beneficial tax rate of 15% as HNTEs for the years 2016 through 2018 and for the years 2018 through 2020, and will need to re-apply for HNTE qualification renewal in 2019 and in 2021, respectively.

- Other PRC subsidiaries were subject to 25% EIT for the period reported.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The additional tax deducting amount of the qualified research and development expenses have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 ("Super Deduction").

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose "de facto management body" is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the "de facto management body" as "the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located." Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its entities registered outside of the PRC should be considered as resident enterprises for the PRC tax purposes.

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between the mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). In accordance with accounting guidance, all undistributed earnings are presumed to be transferred to the parent company and are subject to the withholding taxes. All FIEs are subject to the withholding tax from January 1, 2008. The presumption may be overcome if the Group has sufficient evidence to demonstrate that the undistributed dividends will be re-invested and the remittance of the dividends will be postponed indefinitely. The Group did not record any dividend withholding tax, as it has no retained earnings for any of the years presented.

(All amount in thousands, except share and per share data, unless otherwise stated)

20. Taxation (continued)

(b) Income taxes (continued)

Composition of income tax expenses

Loss before income taxes consists of:

	For the year ended December 31, 2018
	US$
Income before tax from PRC entities	33,142
Loss before tax from Non - PRC entities	(175,790)
Loss before income taxes	(142,648)

The current and deferred portions of income tax expenses included in the consolidated statement of comprehensive loss are as follows:

	For the year ended December 31, 2018
	US$
Current income tax expenses	10,316
Deferred income tax benefit	(97)
Income tax expenses for the year	10,219

Reconciliation of the differences between statutory tax rate and the effective tax rate

The reconciliation of total tax expenses computed by applying the respective statutory income tax rate to pre-tax income is as follows:

	For the year ended December 31, 2018
	US$
Tax calculated at applicable tax rates of the Group entities	(6,870)
Effect of preferential tax rate	5,786
Effect of change in tax rate (i)	6,342
Permanent differences	3,392
Effect of Super Deduction available to the Group	(6,288)
Change in valuation allowance	4,575
Permanent establishment taxes	851
Effect of withholding taxes	2,431
Income tax expenses	10,219

(i) For the year ended 2018, Bigo Singapore and Baiguoyuan Inforamtion started to be entitled to enjoy beneficial tax rates of 5% for the years 2018 through 2022 and 15% for the years 2018 through 2020, respectively. Bigo Singapore and Baiguoyuan Inforamtion's tax rates dropped from 17% to 5% and from 25% to 15%, respectively. Consequently, the valuation allowance of the Group would reduce US$6,342.

(All amount in thousands, except share and per share data, unless otherwise stated)

20. Taxation (continued)

(b) Income taxes (continued)

Deferred tax assets and liabilities

Deferred taxes are measured using the enacted tax rates for the periods in which they are expected to be reversed. The tax effects of temporary differences that give rise to the deferred tax asset balance as of December 31, 2018 are as follows:

	December 31, 2018
	US$
Deferred tax assets	
Tax loss carried forward	13,907
Allowance for accrued expense and others not currently deductible for tax purposes	2,992
Others	741
Valuation allowance (i)	(15,204)
Amounts offset by deferred tax liabilities	(700)
Total deferred tax assets, net	1,736
Deferred tax liabilities	
Related to acquired property and equipment	700
Amounts offset by deferred tax assets	(700)
Total deferred tax liabilities, net	-

(i) Valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group considered factors including future taxable income exclusive of reversing temporary differences and tax loss carry forwards. Valuation allowance was provided for net operating loss carry forward because it was more likely than not that such deferred tax assets would not be realized based on the Group's estimate of its future taxable income. If events occur in the future that allow the Group to realize more of its deferred income tax than the presently recorded amounts, an adjustment to the valuation allowances will result in a decrease in tax expense when those events occur.

Movement of valuation allowance

	For the year ended December 31, 2018
	US$
Balance at beginning of the year	10,629
Additions	11,236
Loss utilized (i)	(23)
Effect of change in tax rate	(6,342)
Reversal (i)	(296)
Balance at end of the year	15,204

(i) For the year ended December 31, 2018, with the growth of its business performance, Baiguoyuan Network and Bigo Entertainment Pte. Ltd. ("Bigo Entertainment") making profit and utilized the tax loss brought forward from prior years. And management believes that it is more likely than not that the deferred tax assets of Baiguoyuan Network and Bigo Entertainment will be realized in the future, and thus reversed the valuation allowance amounting to US$296 as of December 31, 2018.

(All amount in thousands, except share and per share data, unless otherwise stated)

20. Taxation (continued)

(b) Income taxes (continued)

Tax loss carry forwards

As of December 31, 2018, total tax loss carry forwards of the Company's subsidiaries and VIEs in the PRC amounted to US$46,216, which were mainly generated by non-HNTEs and will then expire if not used between 2019 and 2023. The accumulated tax losses of subsidiaries incorporated in Singapore, subject to the agreement of the relevant tax authorities of US$97,857, are allowed to be carried forward to offset against future taxable profits. Such carry forward of tax losses in Singapore have no time limit.

In accordance with PRC Tax Administration Law on the Levying and Collection of Taxes, the PRC tax authorities generally have up to five years to claw back underpaid tax plus penalties and interest for PRC entities' tax filings. In the case of tax evasion, which is not clearly defined in the law, there is no limitation on the tax years open for investigation. There were no ongoing examinations by tax authorities as of December 31, 2018.

	Amount US$
2019	-
2020	-
2021	6,107
2022	14,060
2023	26,049
Total	46,216

Uncertain tax positions

The Group evaluates the level of authority for each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measures the unrecognized benefits associated with the tax positions. As of December 31, 2018, the Group did not have any significant unrecognized uncertain tax positions.

21. Common shares

The Company's Memorandum and Articles of Association authorized the Company to issue 4,000,000,000 common shares at US$0.00001 par value as of December 31, 2018. Each common share is entitled to one vote. The holders of common shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all other classes of shares outstanding.

During the year ended December 31, 2018, 10,125,000 common shares were released from restricted shares upon vesting.

During the year ended December 31, 2018, the CEO of the Company executed a restricted share units instrument where 14,089,600 common shares of the Company are distributed to the CTO, and all such shares be issued as fully paid by past services rendered by the CTO and non-assessable.

As of December 31, 2018, 628,292,725 common shares were issued and outstanding.

22. Redeemable convertible preferred shares

On December 19, 2014, Bigo Singapore issued 60,000,000 Series A Preferred Shares in exchange for Weihui priced at a consideration of US$6,000, or US$0.10 per share. As a result of the reorganization (Note 1), the Series A Preferred Shares changed to 250,000,000 shares of the Company.

On May 19, 2015, the Company issued 400,000,000 Series B Preferred Shares in exchange for an aggregate cash consideration of US$80,000, or US$0.20 per share.

On January 25, 2017, the Company issued 350,000,000 Series C Preferred Shares in exchange for an aggregate cash consideration of US$80,000, or US$0.23 per share.

On June 5, 2018, the Company issued 532,291,667 Series D Preferred Shares in exchange for an aggregate cash consideration of US$365,000, or US$0.686 per share.

The key terms of the Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series D Preferred Shares (collectively referred as the “Preferred Shares”) are summarized as follows:

Dividends rights

Each holder of the Series D Preferred Shares shall be entitled to receive dividends, payable out of funds or assets when funds or assets become legally available therefor on parity with each other, when, as, and if declared by the Board of Directors, prior and in preference to the holders of Series C Preferred Shares, Series B Preferred Shares, Series A Preferred Shares and Ordinary Shares, additionally, the holders of Series D Preferred Shares shall be entitled to receive dividends at the rate no less than the rate for the holders of any other class or series of Shares.

Each holder of the Series C Preferred Shares shall be entitled to receive dividends, payable out of funds or assets when and as such funds or assets become legally available therefor on parity with each other, when, as, and if declared by the Board of Directors, prior and in preference to the holders of Series B Preferred Shares, Series A Preferred Shares and Ordinary Shares, additionally, the holders of Series C Preferred Shares shall be entitled to receive dividends at the rate no less than the rate for the holders of any other class or series of Shares.

Each holder of the Series A Preferred Shares and the Series B Preferred Shares shall be entitled to receive dividends together with the holders of Ordinary Shares on a pari passu and as-converted basis, payable out of funds or assets when and as such funds or assets become legally available therefor on parity with each other, when, as, and if declared by the Board of Directors, provided that the holders of the Series B Preferred Shares shall be entitled to receive dividends at the rate for the holders of any other class or series of Shares.

Conversion feature

Each series of Preferred Shares shall be convertible at the option of the holder thereof, at any time after its issue date into such number of fully paid and non-assessable ordinary share as determined by dividing the issue price of such series of Preferred Shares, as the case may be, by the then-effective applicable conversion price of each series of Preferred Shares, respectively. Upon the closing of a qualified IPO, each series of Preferred Share shall automatically be converted into fully-paid ordinary shares based on the then-effective conversion price of each series of Preferred Shares, respectively. The conversion price for each series of Preferred Shares as of the date of the issuance of each series of Preferred Shares shall initially be the issue price of such series of Preferred Shares, resulting in an initial conversion ratio for each series of Preferred Shares of 1:1. Each series of Preferred Shares, thereafter, shall be subject to adjustment and readjustment from time to time as hereinafter provided, being no less than the par value. Adjustments of conversion ratios include the following: adjustment for share splits and combinations, adjustment for ordinary share dividends and distributions, adjustments for other dividends, adjustments for reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions and adjustments to conversion price for dilutive issuance (dilutive issuance means the event of an issuance of new securities, at any time after the issuance date of the Preferred Shares, for a consideration per ordinary share received by the Company (net of any selling concessions, discounts or commissions) less than conversion price of the Preferred Shares in effect immediately prior to such issue).

22. Redeemable convertible preferred shares (continued)

Redemption feature

Redemption of Series D Preferred Shares

At any time and from time to time after the fifth (5th) anniversary of the Closing of Series D issuance (the “Redemption Date”) or when any other holder of Preferred Shares of the Company requests a redemption by delivery of a Redemption Notice, upon written notice of any holder of Series D Preferred Shares, the Company shall redeem all or a portion of the Series D Preferred Shares held by such holder at the Series D Redemption Price, provided that (a) a Qualified IPO, (b) the liquidation, dissolution or winding up of the Company and (c) a Deemed Liquidation Event has not been consummated by the Company by the Redemption Date.

The “Series D Redemption Price” for each Series D Preferred Share redeemed shall be 100% of the Series D Issue Price plus compounded accrued daily interest (on the basis of a 365-day year basis) at a rate of eight percent (8%) per annum and any declared but unpaid dividends on such Series D Preferred Share.

Redemption of Series C Preferred Shares

At any time and from time to time after the fifth (5th) anniversary of the Series C Closing (the “Series C Redemption Date”) or when any other holder of Series B Preferred Shares or Series A Preferred Shares of the Company requests a redemption by delivery of a Redemption Notice, upon written notice of any holder of Series C Preferred Shares, the Company shall redeem all or a portion of the Series C Preferred Shares held by such holder at the Series C Redemption Price, provided that (a) a Qualified IPO, (b) the liquidation, dissolution or winding up of the Company and (c) a Deemed Liquidation Event has not been consummated by the Company by the Series C Redemption Date.

The “Series C Redemption Price” for each Series C Preferred Share redeemed shall be 100% of the Series C Issue Price plus compounded accrued daily interest (on the basis of a 365-day year basis) at a rate of eight percent (8%) per annum and any declared but unpaid dividends on such Series C Preferred Share.

The issuance of Series D concurrently amended terms of Series C. Key changes include (i) removal of the entitlement to receive the fair value of respective preferred shares (if higher) as the redemption price if the holder decides to exercise the time-based optional redemption option after the 5th anniversary of the Closing of Series C issuance and (ii) removal of the right to request for a Convertible Note in the event the Company does not have sufficient fund to redeem the respective preferred shares upon request from the holder.

22. Redeemable convertible preferred shares (continued)

Redemption of Series B Preferred Shares

At any time and from time to time after the Series C Redemption Date or when any other holder of Series A Preferred Shares of the Company requests a redemption by delivery of a Redemption Notice, upon written notice of any holder of Series B Preferred Shares, the Company shall redeem all or a portion of the Series B Preferred Shares held by such holder at the Series B Redemption Price, provided that (a) a Qualified IPO, (b) the liquidation, dissolution or winding up of the Company and (c) a Deemed Liquidation Event has not been consummated by the Company by the Redemption Date.

The "Series B Redemption Price" for each Series B Preferred Share redeemed shall be 100% of the Series B Issue Price, in respect of each of the Series B Preferred Shares held by such holder and requested to be redeemed, and any declared but unpaid dividends on such Series B Preferred Share; provided that, the Series B Redemption Price shall be proportionally adjusted for share splits, share dividends, recapitalization and the like. Notwithstanding anything to the contrary contained herein, no Series A Preferred Shares of the Company shall be redeemed unless and until the Company shall have redeemed all of the issued and outstanding Series B Preferred Shares or as contemplated otherwise in the Purchase Agreement.

The issuance of Series D concurrently amended terms of Series B. Key changes include (i) removal of the entitlement to receive the fair value of respective preferred shares (if higher) as the redemption price if the holder decides to exercise the time-based optional redemption option after the 5th anniversary of the Closing of Series C issuance and (ii) removal of the right to request for a Convertible Note in the event the Company does not have sufficient fund to redeem the respective preferred shares upon request from the holder.

Redemption of Series A Preferred Shares

At any time and from time to time after the Series C Redemption Date, upon written notice of any holder of Series A Preferred Shares, the Company shall redeem all or a portion of the Series A Preferred Shares held by such holder at the Series A Redemption Price, provided that (a) a Qualified IPO, (b) the liquidation, dissolution or winding up of the Company, and (c) a Deemed Liquidation Event has not been consummated by the Company by the Redemption Date.

The "Series A Redemption Price" for each Series A Preferred Share redeemed shall be 100% of the Series A Issue Price, in respect of each of the Series A Preferred Shares held by such holder and requested to be redeemed, and any declared but unpaid dividends on such Series A Preferred Share; provided that, the Series A Redemption Price shall be proportionally adjusted for share splits, share dividends, recapitalization and the like.

If the Company's assets or funds legally available for any redemption of Preferred Shares pursuant hereto shall be insufficient to permit the payment of the applicable Redemption Price in full in respect of each redeeming Preferred Shares, those assets or funds, including out of the share premium account and capital, subject to the Statute, which are legally available shall be, to the extent permitted by applicable law, (i) first utilized to redeem Series D Preferred Shares requested and entitled to be redeemed, (ii) second utilized to redeem Series C Preferred Shares requested and entitled to be redeemed, (iii) third utilized to redeem any Series B Preferred Shares requested and entitled to be redeemed and (iv) fourth utilized to redeem Series A Preferred Shares requested and entitled to be redeemed. With respect to any remaining Preferred Shares to be redeemed, each of the redeeming holders of the Preferred Shares may choose, at its sole discretion, request the Company to (and the Company upon such request shall) carry forward and redeem the remaining Preferred Shares to be redeemed as soon as the Company has legally available funds to do so.

The issuance of Series D concurrently amended terms of Series A. Key change is removal of the right to request for a Convertible Note in the event the Company does not have sufficient fund to redeem the respective preferred shares upon request from the holder.

22. Redeemable convertible preferred shares (continued)

Duowan's Right to Purchase Additional Shares

After the first anniversary of the Closing Date of Series D issuance, Duowan shall at its sole discretion have an exclusive right but no obligation to purchase ("Series D Warrant") i) such number of newly issued Equity Securities directly from the Company and/or from holders of Ordinary Shares or Preferred Shares, so that the total equity interests and voting power held by Duowan in the Company shall exceed 50.1% on an as-converted and fully-diluted basis, or ii) certain number of newly issued Equity Securities directly from the Company and/or certain number of Equity Securities from holders of Ordinary Shares or Preferred Shares, immediately upon completion of which Duowan's total equity interests in the Company shall be at least 33.3% but not exceed 50.1% on an as-converted and fully-diluted basis. In the event that Duowan exercises such purchase right pursuant to item (ii) above, each of the Investors agree that the Company shall adopt a dual class ordinary share structure immediately prior to the completion of such purchase such that a) the Ordinary Shares will consist of Class A ordinary shares and Class B ordinary shares, with holders of Class A ordinary shares being entitled to one vote per share in respect of matters requiring the votes of shareholders while holders of Class B ordinary shares being entitled to ten votes per shares, and b) Duowan shall hold Class B ordinary shares and all other shareholders shall hold Class A ordinary shares, as a result of which Duowan's total voting power in the Company shall exceed 50.1% on an as-converted and fully diluted basis. The purchase price per Share equals to a) the average of closing trading prices in the last 20 trading days prior to the Company's receipt of Duowan's written notice to exercise such purchase right, if the Company is then a public company; or b) a fair market value as determined by an independent appraiser as mutually agreed to by the Company and the majority of the Board, if the Company has not then completed a Qualified IPO at the time of Duowan's exercise of such purchase right or a Qualified Financing which occurs within 6 months prior to Duowan's exercise of such purchase right. If and when Duowan exercise its purchase right following the Purchase Right Commencement Date, Duowan shall have the priority to purchase from holders of Ordinary Shares and/or Preferred Shares. If Duowan fails to purchase all such required number of Equity Securities from holders of Ordinary Shares and/or Preferred Shares to obtain 50.1% voting power of the Company, the Company shall issue new Equity Securities to Duowan and/or its Affiliates at the applicable Fair Market Price, so that the total voting power held by Duowan and/or its Affiliates in the Company will exceed 50.1%, on an as-converted and fully diluted basis.

Voting rights

The holder of a Preferred Share shall be entitled to such number of votes as equals the whole number of ordinary shares into which such holder's collective Preferred Shares are convertible immediately. Each of the Investors agrees and undertakes to take all necessary actions, including by means of voting at each meeting of shareholders of the Company or in lieu of any such meeting giving its written consent with respect to, as the case may be, all of its voting securities of the Company as may be necessary, to support and adopt the dual class ordinary share structure as described in Duowan's Right to Purchase Additional Shares.

Liquidation preferences

Deemed Liquidation Event is (1) any consolidation, amalgamation, scheme of arrangement or merger of any Group Company with or into any other Person or other reorganization in which the Members or shareholders of such Group Company immediately prior to such consolidation, amalgamation, merger, scheme of arrangement or reorganization own less than fifty percent (50%) of such Group Company's voting power in the aggregate immediately after such consolidation, merger, amalgamation, scheme of arrangement or reorganization, or any transaction or series of related transactions in which in excess of fifty percent (50%) of such Group Company's voting power is transferred; (2) a sale, transfer, lease or other disposition of all or substantially all of the assets (either in terms of quantities or value) of any Group Company (or any series of related transactions resulting in such sale, transfer, lease or other disposition of all or substantially all of the assets of such Group Company); or (3) the exclusive licensing of all or substantially all of any Group Company's Intellectual Property to a third party.

In the event of any liquidation, dissolution or winding up of the Company or Deemed Liquidation Event, whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the members (after satisfaction of all creditors' claims and claims that may be preferred by Law) shall be distributed to the members of the Company as follows:

22. Redeemable convertible preferred shares (continued)

Liquidation preferences (continued)

(1) First, the holders of the Series D Preferred Shares shall be entitled to receive for each Series D Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to the sum of (i) 100% of the Series D Issue Price, and (ii) any and all accrued or declared but unpaid dividends on such Series D Preferred Shares (collectively, the “Series D Preference Amount”). If the assets and funds thus distributed among the holders of the Series D Preferred Shares shall be insufficient to permit the payment to such holders of the full Series D Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series D Preferred Shares in proportion to the aggregate Series D Preference Amount each such holder is otherwise entitled to receive pursuant to this subparagraph (1).

(2) Second, after payment of the Series D Preference Amount in full pursuant to subparagraph (1) above, the holders of the Series C Preferred Shares shall be entitled to receive for each Series C Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to the sum of (i) 100% of the Series C Issue Price, and (ii) any and all accrued or declared but unpaid dividends on such Series C Preferred Shares (collectively, the “Series C Preference Amount”). If the assets and funds remaining after the distribution of the Series D Preference Amount thus distributed among the holders of the Series C Preferred Shares shall be insufficient to permit the payment to such holders of the full Series C Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series C Preferred Shares in proportion to the aggregate Series C Preference Amount each such holder is otherwise entitled to receive pursuant to this subparagraph (2).

(3) Third, after payment of the Series D Preference Amount and the Series C Preference Amount in full pursuant to subparagraphs (1) and (2) above, the holders of the Series B Preferred Shares shall be entitled to receive for each Series B Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to the sum of (i) 100% of the Series B Issue Price, and (ii) any and all accrued or declared but unpaid dividends on such Series B Preferred Shares (collectively, the “Series B Preference Amount”). If the assets and funds remaining after the distribution of the Series D Preference Amount and Series C Preference Amount thus distributed among the holders of the Series B Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B Preference Amount, then the entire amount of such remaining assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series B Preferred Shares in proportion to the aggregate Series B Preference Amount each such holder is otherwise entitled to receive pursuant to this subparagraph (3).

(4) Fourth, after payment of the Series D Preference Amount, Series C Preference Amount and the Series B Preference Amount in full pursuant to subparagraphs (1), (2) and (3) above, the holders of the Series A Preferred Shares shall be entitled to receive for each Series A Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to the sum of (i) 100% of the Series A Issue Price, and (ii) any and all accrued or declared but unpaid dividends on such Series A Preferred Shares (collectively, the “Series A Preference Amount”). If the assets and funds remaining after the distribution of the Series D Preference Amount, Series C Preference Amount and the Series B Preference Amount thus distributed among the holders of the Series A Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire amount of such remaining assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Shares in proportion to the aggregate Series A Preference Amount each such holder is otherwise entitled to receive pursuant to this subparagraph (4).

(5) If there are any assets or funds remaining after the aggregate Series D Preference Amount, Series C Preference Amount, Series B Preference Amount and Series A Preference Amount has been distributed or paid in full to the applicable Preferred Shareholders pursuant to subparagraphs (1), (2), (3) and (4) above, the remaining assets and funds of the Company available for distribution to the Members shall be distributed ratably among all Members according to the relative number of Ordinary Shares held by such Member (treating for this subparagraph (5) all Preferred Shares as if they had been converted to Ordinary Shares immediately prior to such liquidation, dissolution or winding up of the Company).

22. Redeemable convertible preferred shares (continued)

Accounting for Series D Preferred Shares

The Company classified the Series D Preferred Shares as mezzanine equity in the consolidated balance sheets because they were redeemable at the holders' option any time after a certain date and were contingently redeemable upon the occurrence of certain liquidation events outside of the Company's control. Based on the amended terms of the Preferred Shares post-Series D issuance, Management noted that the right to request for a Convertible Note in the event the Company does not have sufficient fund to redeem the respective preferred shares upon request from the holder which was the primary feature resulting in the debt host determination prior to the issuance of Series D has been removed. Accordingly, Management believes that Series D Preferred Shares should be considered an equity host.

The management determines that the Series D Warrant to be accounted for as a freestanding financial instrument considering that the Series D Warrant is deemed legally detachable and separately exercisable from the preferred shares. Further, the holder of the Preferred Shares shall have the right to decide in its sole discretion whether to sell to Duowan. Accordingly, the number of share to be issued by the Company in order for Duowan to achieve 50.1% of voting right can vary based on different factors. As a result, the "fixed-for-fixed" criteria is not met and the Series D Warrant is not considered indexed to the company's own stock. The Company has considered that the fair value of the investor option liability is minimal upon the closing of the Transaction and as of the issuance date of the financial statements. Therefore, no balance of the warrant was recognized as of the financial statement issuance date and no gain (loss) arising from the change in fair value of the warrant was recognized in the Group's consolidated statements of comprehensive (loss) gain.

Accounting for Modification of Series A, B and C Preferred Shares

The issuance of Series D concurrently amended terms of Series A, B and C. Key changes include (i) removal of the entitlement to receive the fair value of respective preferred shares (if higher) as the redemption price if the holder decides to exercise the time-based optional redemption option after the 5th anniversary of the Closing of Series C issuance and (ii) removal of the right to request for a Convertible Note in the event the Company does not have sufficient fund to redeem the respective preferred shares upon request from the holder.

Prior to the amendment, there was net settlement mechanism of the conversion option of Series A, B and C and therefore the respective conversion option met the definition of a derivative and was bifurcated and accounted separately for financial reporting purposes. After the issuance of Series D Preferred Shares, the host assessment of the amended Preferred Shares changed from debt host to equity host due to the removal of the right to request for a Convertible Note in the event the Company does not have sufficient fund to redeem the respective preferred shares upon request from the holder. The amendment to redemption price of Series A, B and C no longer provide a net settlement mechanism to the conversion option embedded for shares which are held by non-Financial Investors. Consistent with the analysis earlier, the conversion option of the amended Series A, B and C as equity host contracts are no longer required to be bifurcated and accounted separately from the host contract post amendment. Accordingly, the Company concluded that the amendment to Series A, B and C should be accounted for as an extinguishment given the significant changes to the conversion option.

Prior to the issuance of Series D, Series A, B and C were each accounted for in two components: (1) conversion option at fair value and (2) mezzanine equity of the Preferred Shares. Upon an extinguishment of preferred shares, the amended preferred shares are recognized at their respective fair value. The difference between the fair value of the amended Preferred Shares and the original carrying values at the time of extinguishment should be recognized as a deemed dividend or contribution depending on which value is higher. The conversion option is no longer recognized at fair value at each subsequent reporting period with changes in fair value recognized in earnings.

(All amount in thousands, except share and per share data, unless otherwise stated)

22. Redeemable convertible preferred shares (continued)

Fair values of derivative liabilities

For the years ended December 31, 2018, changes in the fair values of these conversion features which required to be bifurcated and accounted for as derivative liabilities are as follows:

	Conversion feature embedded in Series A Preferred Shares	Conversion feature embedded in Series B Preferred Shares	Conversion feature embedded in Series C Preferred Shares	Total
	US$	US$	US$	US$
Balance as of December 31, 2017	110,707	149,336	112,219	372,262
Fair value loss on derivative liabilities prior to the extinguishment	31,477	38,403	24,931	94,811
Derecognition of derivative liabilities upon the completion of the issuance of Series D Preferred Shares (i)	(142,184)	(187,739)	(137,150)	(467,073)
Balance as of December 31, 2018	-	-	-	-

(i) Prior to the extinguishment of the Series A, B and C Preferred Shares as of June 5, 2018, the mezzanine equity and the derivative liabilities balance recognized for Series A, B and C as of June 5, 2018 in aggregate were US$ 129,925 and US$ 467,073 respectively. The difference between the fair value of the amended Series A, B and C Preferred Shares and the original carrying values of Series A, B and C Preferred Shares amounting to US$28,871 was recognized as deemed contribution in equity as of June 5, 2018.

(All amount in thousands, except share and per share data, unless otherwise stated)

22. Redeemable convertible preferred shares (continued)

Accretion of Preferred shares to redemption value

The Company's redeemable convertible preferred shares activities for the years ended December 31, 2018 are summarized below:

Series A Preferred Shares

Prior to the extinguishment	**Number of shares**	**Amount**
		US$
Mezzanine equity balance as of December 31, 2017	250,000,000	3,926
Accretion to Series A Preferred Shares redemption value prior to the extinguishment	-	177
Mezzanine equity balance as of June 4, 2018	250,000,000	4,103

Prior to the extinguishment of the Series A Preferred Shares as of June 5, 2018, the mezzanine equity and the derivative liabilities balance recognized for Series A as of June 5, 2018 were US$4,103 and US$142,184. Upon the extinguishment of the Series A Preferred Shares as of June 5, 2018, the amended Series A preferred shares were recognized as mezzanine equity at fair value amounting to US$ 137,354. The difference between the fair value of the amended Series A Preferred Shares and the original carrying values of Series A Preferred Shares amounting to US$ 8,933 was recognized as deemed contribution in equity as of June 5, 2018.

The Company's Series A Preferred Shares activities from the extinguishment date to December 31, 2018 are summarized below:

Post extinguishment	**Number of shares**	**Amount**
		US$
Mezzanine equity balance as of June 4, 2018	250,000,000	4,103
Derecognition of mezzanine equity upon the completion of the issuance of Series D Preferred Shares		(4,103)
Recognition of mezzanine equity at fair value as of June 5, 2018	-	137,354
Mezzanine equity balance as of December 31, 2018	250,000,000	137,354

(All amount in thousands, except share and per share data, unless otherwise stated)

22. Redeemable convertible preferred shares (continued)

Accretion of Preferred shares to redemption value (continued)

Series B Preferred Shares

Prior to the extinguishment	**Number of shares**	**Amount**
		US$
Mezzanine equity balance as of December 31, 2017	400,000,000	56,416
Accretion to Series B Preferred Shares redemption value prior to the extinguishment	-	2,095
Mezzanine equity balance as of June 4, 2018	400,000,000	58,511

Prior to the extinguishment of the Series B Preferred Shares as of June 5, 2018, the mezzanine equity and the derivative liabilities balance recognized for Series A as of June 5, 2018 were US$58,511and US$187,739. Upon the extinguishment of the Series B Preferred Shares as of June 5, 2018, the amended Series B preferred shares were recognized as mezzanine equity at fair value amounting to US$227,745. The difference between the fair value of the amended Series B Preferred Shares and the original carrying values of Series B Preferred Shares amounting to US$18,505 was recognized as deemed contribution in equity as of June 5, 2018.

The Company's Series B Preferred Shares activities from the extinguishment date to December 31, 2018 are summarized below:

Post extinguishment	**Number of shares**	**Amount**
		US$
Mezzanine equity balance as of June 4, 2018	400,000,000	58,511
Derecognition of mezzanine equity upon the completion of the issuance of Series D Preferred Shares	-	(58,511)
Recognition of mezzanine equity at fair value as of June 5, 2018	-	227,745
Mezzanine equity balance as of December 31, 2018	400,000,000	227,745

(All amount in thousands, except share and per share data, unless otherwise stated)

22. Redeemable convertible preferred shares (continued)

Accretion of Preferred shares to redemption value (continued)

Series C Preferred Shares

Prior to the extinguishment	**Number of shares**	**Amount**
		US$
Mezzanine equity balance as of December 31, 2017	350,000,000	63,076
Accretion to Series C Preferred Shares redemption value prior to the extinguishment	-	4,235
Mezzanine equity balance as of June 4, 2018	350,000,000	67,311

Prior to the extinguishment of the Series C Preferred Shares as of June 5, 2018, the mezzanine equity and the derivative liabilities balance recognized for Series C as of June 5, 2018 were US$67,311 and US$137,150. Upon the extinguishment of the Series C Preferred Shares as of June 5, 2018, the amended Series A preferred shares were recognized as mezzanine equity at fair value amounting to US$ 203,028. The difference between the fair value of the amended Series C Preferred Shares and the original carrying values of Series C Preferred Shares amounting to US$1,433 was recognized as deemed contribution in equity as of June 5, 2018.

The Company's Series C Preferred Shares activities from the extinguishment date to December 31, 2018 are summarized below:

Post extinguishment	**Number of shares**	**Amount**
		US$
Mezzanine equity balance as of June 4, 2018	350,000,000	67,311
Derecognition of mezzanine equity upon the completion of the issuance of Series D Preferred Shares	-	(67,311)
Recognition of mezzanine equity at fair value as of June 5, 2018	-	203,028
Mezzanine equity balance as of December 31, 2018	350,000,000	203,028

Series D Preferred Shares

The Company's Series D Preferred Shares activities for the year ended December 31, 2018 are summarized below:

	Number of shares	**Amount**
		US$
Mezzanine equity balances as of December 31, 2017	-	-
Issuance as of June 5, 2018	532,291,667	365,000
Accretion of Series D redeemable convertible preferred shares to redemption value	-	16,445
Mezzanine equity balance as of December 31, 2018	532,291,667	381,445

The Company has used the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series D Preferred Shares as of the date of issuance of Series D Preferred Shares. Key valuation assumptions used to determine the fair value of Preferred Shares please refer to Note 25.

(All amount in thousands, except share and per share data, unless otherwise stated)

23. Share-based compensation

(a) Restricted share units

Grant of restricted share units

On April 23, 2015, the board of directors of the Company approved the 2015 Share Incentive Scheme and the maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the 2015 Share Incentive Scheme shall be 100,000,000 shares.

On June 5, 2018 and June 30, 2018, an additional 120,120,614 and 31,578,125 ordinary shares in aggregate were authorized and reserved to be allotted to the employees, officers, directors, and consultants or service providers of the Company and its affiliates, and other eligible persons as restricted share units, respectively.

During the year ended December 31, 2018, the Company granted restricted share units to employees and non-employees of 111,488,000 and 500,000, respectively.

Vesting of restricted share units

There are two types of vesting schedule under the 2015 Share Incentive Scheme, which are: i) 50% of the restricted share units will be vested after 24 months of the grant date and the remaining 50% will be vested in two equal installments over the following 24 months, and ii) restricted share units will be vested in four equal installments over the following 48 months.

The following table shows the applicable number of restricted share units and weighted-average grant date fair value for restricted share units granted, vested and forfeited during the fiscal year ended December 31, 2018 and restricted share units outstanding as of December 31, 2018.

	Number of restricted share units	**Weighted average fair value (US$)**
Outstanding, December 31, 2017	59,681,001	0.1896
Granted	111,988,746	0.5116
Forfeited	(5,787,000)	0.3277
Vested	(30,121,456)	0.1776
Outstanding, December 31, 2018	135,761,291	0.4516
Expected to vest at December 31, 2018	116,408,437	0.4522

The fair value of the share-based awards above was determined at the respective grant dates by the Company with the assistance of an independent valuation company.

Forfeitures are estimated at the time of grant. If necessary, forfeitures are revised in subsequent periods if actual forfeitures differ from those estimates.

(All amount in thousands, except share and per share data, unless otherwise stated)

23. Share-based compensation (continued)

(a) Restricted share units (continued)

For the years ended December 31, 2018, the Group recorded share-based compensation of US$17,627 using the graded-vesting attribution method.

As of December 31, 2018, there was US$46,255 unrecognized share-based compensation expense relating to Bigo 2015 Share Incentive Scheme granted to employees. The expense is expected to be recognized over a weighted-average remaining vesting period of 1.85 years using the graded-vesting attribution method.

(b) Restricted shares

On May 15, 2015, the CTO of the Company was granted 54,000,000 restricted shares. The restricted shares granted to CTO will be vested 25% immediately on the grant date and the rest 75% will be vested in 48 equal installments over the following 48 months.

Movements in the number of restricted shares are as follows:

	Number of restricted shares	Weighted average fair value (US$)
Outstanding, December 31, 2017	14,343,750	0.1250
Vested	(10,125,000)	0.1250
Outstanding, December 31, 2018	4,218,750	0.1250

For the year ended December 31, 2018, the Group recorded share-based compensation of US$331 using the graded-vesting attribution method.

As of December 31, 2018, there was US$28 unrecognized share-based compensation expense relating to the restricted shares. The expense is expected to be recognized over a weighted-average remaining vesting period of one year using the graded-vesting attribution method.

(All amount in thousands, except share and per share data, unless otherwise stated)

24. Related party transactions

For the year ended December 31, 2018, significant related party transactions were as follows:

	For the year ended December 31, 2018
	US$
Rental service provided by YY [1]	1,034
Supervision service provided by YY [1]	146
Purchase of services by YY[1] on behalf of Bigo	1,680
Cash collected by YY as a payment platform for Bigo	1,226
Loan from YY[2]	27,448
Repayment of loan to YY[2]	3,166
Payment on behalf of management, net of repayment	644
Loan to management[3]	10,047
Others	492

(1) Purchases of services are mutually agreed with reference to the cost and market price of the services.

(2) The Company entered into agreements with YY, pursuant to which the Company borrowed six loans with total principal amount of RMB188 million (equal to US$27,448). These loans were all with a maturity of less than one year and the annual interest rates of these loans were 4.785%. No term deposit was pledged as collateral for the loans.

One of the aforementioned six loans with principal amount of RMB 20 million (equal to US$3,166) was repaid on February 24, 2018.

(3) The Company entered into an agreement with CEO, Mr. David Xueling Li, pursuant to which the Company lent a loan with principal amount of RMB70 million (equal to US$10,047) effective as of November 21, 2018. The loan was with a maturity of one year and the annual interest rates of these loans were 4.785%.

As of December 31, 2018, the amount from/to related parties are as follows:

	December 31, 2018
	US$
Amounts due from related parties	
Management[1]	11,111
Amounts due to a related party	
YY[2]	24,991

(1) The amounts due from management mainly consisted of an unsecured loan provided to Mr. David Xueling Li, plus all accrued and unpaid interest. The maturities of the loan was within one year.

(2) The amounts due to YY mainly consisted of unsecured loans provided from YY. The maturities of the loans were all within one year.

The other receivables/payables from/to related parties are unsecured and payable on demand.

25. Fair value measurements

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the assets or liabilities.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This guidance specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1—Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2—Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3—Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value guidance describes three main approaches to measure the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

(All amount in thousands, except share and per share data, unless otherwise stated)

25. Fair value measurements (continued)

The following table sets forth the financial instruments measured or disclosed at fair value on a recurring basis by level within the fair value hierarchy as of December 31, 2018:

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
	US$	US$	US$	US$
Assets				
Short-term investments (i)	-	-	20,045	20,045

(i) Short-term investments represent structured deposits and their fair value is estimated based on quoted prices of similar products provided by banks at the end of each period, and accordingly, the Company classifies the valuation techniques that use these inputs as Level 3 of fair value measurements.

The following table presents the changes in level 3 liabilities for the year ended December 31, 2018

	Conversion feature embedded in Series A Preferred Shares	Conversion feature embedded in Series B Preferred Shares	Conversion feature embedded in Series C Preferred Shares	Total
	US$	US$	US$	US$
Balance as of December 31, 2017	110,707	149,336	112,219	372,262
Fair value loss on derivative liabilities	31,477	38,403	24,931	94,811
Derecognition of derivative liabilities upon the completion of the issuance of Series D Preferred Shares	(142,184)	(187,739)	(137,150)	(467,073)
Balance as of December 31, 2018	-	-	-	-

(All amount in thousands, except share and per share data, unless otherwise stated)

25. Fair value measurements (continued)

In determining the fair value of these preferred shares, the Company has adopted the equity allocation model. For purposes of determining the conversion features of Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares as of June 4, 2018 and June 5, 2018, the Company has re-performed the equity allocation model for Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares in scenarios assuming the conversion feature is removed, the difference between the with embedded conversion features scenario and the without embedded conversion features scenario is considered to be value of the conversion features of the Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares. Such approach involves certain significant estimates which are as follows:

Valuation Date	**June 4, 2018**	**June 5, 2018**	**December 31, 2018**
Volatility(1)	47.55%	51.34%	47.62%
Risk-free rate(2)	3.5%	3.48%	3.05%
Dividend yield(3)	0%	0%	0%
Time to expiration(4) (in years)	3.64	5	4.43

(1) Expected volatility is estimated based on the average of historical volatilities of the comparable companies in the same industry as at the valuation dates.
(2) The risk-free interest rate of periods within the contractual life of the share option is based on the China Government Bond yield as at the valuation dates.
(3) The Group have no history or expectation of paying dividend on its ordinary shares. The expected dividend yield was estimated based on its expected dividend policy over the expected term of the option.
(4) The expected term is the contract life of the option.

26. Commitments and contingencies

(a) Operating lease commitments

The Group leases facilities under non-cancelable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases.

Total office rental expenses under all operating leases were US$5,441 for the years ended December 31, 2018.

As of December 31, 2018, future minimum payments under non-cancelable operating leases consist of the following,

	Office rental US$
2019	6,540
2020	5,329
2021	4,048
2022	1,459
2023	750
Total	18,126

(b) Capital and other commitment

The Group had outstanding capital commitments totaling US$3,344 as of December 31, 2018, which consisted of capital expenditures of equity investment and license.

(All amount in thousands, except share and per share data, unless otherwise stated)

27. Subsequent events

(a) In 2019, the Group entered into a share purchase agreement with SINGULARITY IM, INC. ("Singularity") and its shareholders. Under the agreement, the Group agreed to purchase 100% equity share of Singularity for a total consideration of about US$426.5 million. Singularity operates IMO by its subsidiary PageBites Inc, a chat and instant messaging application with functions including video calls, text messages, photo and video sharing, and others. The transaction was completed on March 1, 2019. On the acquisition date, the allocation of the consideration of the assets acquired and liabilities assumed based on their fair value was as follows:

	US$
Cash consideration	100
Cancellation of indebtedness	426,351
Total consideration	426,451
Net assets acquired	30,591
Identifiable intangible assets acquired	
- User Bases	42,600
- Non-compete Agreement	12,100
- Trademarks	31,400
Goodwill	333,854
Deferred tax liabilities	(24,094)
Total	426,451

The acquired identifiable tangible assets will be valued by various approaches, including the income approach and the replacement cost approach.

The excess of the purchase price over tangible assets. Identifiable intangible assets acquired, and liabilities assumed was recorded as goodwill. The acquired identifiable intangible assets were valued by various approaches, including user bases, non-compete agreement and trademarks. Total goodwill of US$333.9 million primarily represents the expected synergies from operations of IMO, which were expected to be complementary to each other. In accordance with ASC 350, goodwill is not amortized but is tested for impairment and is not deductible for tax purpose.

(b) On March 1, 2019, the Group entered into a cancellation of indebtedness agreement ("Agreement") with Singularity. As of March 1, 2019, Singularity owes an aggregate principal amount to the Group of $418.5million plus all accrued and unpaid interest, all accrued and unpaid fees and expenses, reimbursements, indemnities and other obligations arising under the Loan Agreements. Under the Agreement, the Group agreed to cancel, discharge and forgive all of the debt and treat such cancellation of indebtedness as a capital contribution from the Group to Singularity.

(c) In 2019, YY entered into a share purchase agreement with the Group and its shareholders. Under the agreement, YY agreed to purchase all outstanding shares of the Group which were not yet owned by YY. Pursuant to the agreement, YY paid US$343.1 million in cash and issued 313,888,496 Class A common shares and 38,326,579 Class B common shares of YY. The transaction was completed on March 4, 2019.