

YY Inc.
Form 20-F
April 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

**..REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**..ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
^x1934**

For the fiscal year ended December 31, 2017.

OR

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934**

OR

**..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report.....

For the transition period from to

Commission file number: 001-35729

YY INC.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Building B-1, North Block of Wanda Plaza, No. 79 Wanbo Er Road,

Nancun Town, Panyu District

Guangzhou 511442

The People's Republic of China

(Address of principal executive offices)

Bing Jin,

Chief Financial Officer,

Tel: +86 (20) 8212-0088, E-mail: jinbing@yy.com, Fax: +86 (20) 8212-0887

Building B-1, North Block of Wanda Plaza, No. 79 Wanbo Er Road,

Nancun Town, Panyu District

Guangzhou 511442

The People's Republic of China

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Class A common shares, par value US\$0.00001 per share	The NASDAQ Stock Market*

* Not for trading, but only in connection with the listing on The NASDAQ Stock Market of the American depositary shares ("ADSs"). Currently, one ADS represents 20 Class A common shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report. **945,245,908 Class A common shares, par value US\$0.00001 per share, and 317,982,976 Class B common shares, par value US\$0.00001 per share, were outstanding as of December 31, 2017.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No "

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

Edgar Filing: YY Inc. - Form 20-F

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

TABLE OF CONTENTS

	Page
<u>INTRODUCTION</u>	<u>1</u>
<u>FORWARD-LOOKING STATEMENTS</u>	<u>1</u>
<u>PART</u>	
<u>I</u>	<u>3</u>
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u>	<u>3</u>
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>3</u>
<u>ITEM 3. KEY INFORMATION</u>	<u>3</u>
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	<u>48</u>
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	<u>78</u>
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>78</u>
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>104</u>
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>116</u>
<u>ITEM 8. FINANCIAL INFORMATION</u>	<u>122</u>
<u>ITEM 9. THE OFFER AND LISTING</u>	<u>123</u>
<u>ITEM 10. ADDITIONAL INFORMATION</u>	<u>124</u>
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>135</u>
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>136</u>
<u>PART</u>	
<u>II</u>	<u>139</u>
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>139</u>
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	<u>139</u>

<u>ITEM</u> <u>15.</u>	<u>CONTROLS AND PROCEDURES</u>	<u>139</u>
<u>ITEM</u> <u>16.</u>	<u>RESERVED</u>	<u>140</u>
<u>ITEM</u> <u>16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>140</u>
<u>ITEM</u> <u>16B.</u>	<u>CODE OF ETHICS</u>	<u>140</u>
<u>ITEM</u> <u>16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>140</u>
<u>ITEM</u> <u>16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>141</u>
<u>ITEM</u> <u>16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	<u>141</u>
<u>ITEM</u> <u>16F.</u>	<u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	<u>141</u>
<u>ITEM</u> <u>16G.</u>	<u>CORPORATE GOVERNANCE</u>	<u>141</u>
<u>ITEM</u> <u>16H.</u>	<u>MINE SAFETY DISCLOSURE</u>	<u>141</u>
 <u>PART</u> <u>III</u>		 <u>142</u>
<u>ITEM</u> <u>17.</u>	<u>FINANCIAL STATEMENTS</u>	<u>142</u>
<u>ITEM</u> <u>18.</u>	<u>FINANCIAL STATEMENTS</u>	<u>142</u>
<u>ITEM</u> <u>19.</u>	<u>EXHIBITS</u>	<u>142</u>

INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

“we,” “us,” “our company” and “our” refer to YY Inc., a Cayman Islands company, its subsidiaries and consolidated affiliated entities (also referred to as variable interest entities) and the subsidiaries of its consolidated affiliated entities, as the context may require;

“active user” for any period means a registered user account that has logged onto our platforms at least once during such relevant period;

“concurrent users” for any point in time means the total number of YY users that are simultaneously logged onto our platforms at such point in time;

“paying user” for any period means a registered user account that has purchased virtual items or other products and services on our platforms at least once during the relevant period. A paying user is not necessarily a unique user, however, as a unique user may set up multiple paying user accounts on our platforms; thus, the number of paying users referred to in this annual report may be higher than the number of unique users who are purchasing virtual items or other products and services;

“registered user account” means a user account that has downloaded, registered and logged onto our platforms at least once since registration. We calculate registered user accounts as the cumulative number of user accounts at the end of the relevant period that have logged onto our platforms at least once after registration. Each individual user may have more than one registered user account, and consequently, the number of registered user accounts we present in this annual report may overstate the number of unique individuals who are our registered users; and

“unique visitor” to Duowan.com means a visitor to Duowan.com from a specific IP address. No subsequent visits from the same IP address during a relevant period are added to our total unique visitors count for that period. An individual who accesses Duowan.com from more than one IP address is counted as a unique visitor for each IP address he or she uses.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These forward-looking statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “is expected to,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements about:

- our growth strategies;

- our ability to retain and increase our user base and expand our product and service offerings;

- our ability to monetize our platforms;

- our future business development, results of operations and financial condition;

- competition from companies in a number of industries, including internet companies that provide online voice and video communications services, social networking services and online games;

- expected changes in our revenues and certain cost or expense items;
- general economic and business condition in China and elsewhere; and
- assumptions underlying or related to any of the foregoing.

You should thoroughly read this annual report and the documents that we refer to herein with the understanding that our actual future results may be materially different from and/or worse than what we expect. Other sections of this annual report, including the Risk Factors and Operating and Financial Review and Prospects sections, discuss factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

You should not rely upon forward-looking statements we make as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of operations data for the three years ended December 31, 2015, 2016 and 2017 and the consolidated balance sheet data as of December 31, 2016 and 2017 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. Our selected consolidated statements of operation data for the years ended December 31, 2013 and 2014 and our consolidated balance sheet data as of December 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements not included in this annual report. Beginning in 2016, we changed our revenues presentation to live streaming, online games, membership and others. As a result, we also retrospectively changed the revenue presentation for the year ended December 31, 2015, 2014 and 2013. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. Our historical results for any period are not necessarily indicative of results to be expected for any future period. You should read the following selected financial information in conjunction with the consolidated financial statements and related notes and the information under “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report.

For the Year Ended December 31,					
2013	2014	2015	2016	2017	
RMB	RMB	RMB	RMB	RMB	US\$
(All amounts in thousands, except share, ADS, per share and per ADS data)					

Edgar Filing: YY Inc. - Form 20-F

Selected
Consolidated
Statements of
Operations
Data:

Net Revenue⁽¹⁾

Live streaming	904,042	2,475,379	4,539,857	7,027,227	10,670,954	1,640,096
Online games	602,111	811,699	771,882	634,325	543,855	83,589
Membership	141,238	205,199	291,310	284,860	197,561	30,365
Others	176,077	186,091	294,200	257,638	182,422	28,038
Total net revenues	1,823,468	3,678,368	5,897,249	8,204,050	11,594,792	1,782,088
Cost of revenues ⁽²⁾	(881,999)	(1,849,149)	(3,579,744)	(5,103,430)	(7,026,402)	(1,079,938)
Gross profit	941,469	1,829,219	2,317,505	3,100,620	4,568,390	702,150
Operating expenses: ⁽²⁾						
Research and development expenses	(267,005)	(431,188)	(548,799)	(675,230)	(781,886)	(120,174)
Sales and marketing expenses	(24,955)	(102,527)	(312,870)	(387,268)	(691,281)	(106,248)
General and administrative expenses	(200,554)	(223,019)	(358,474)	(482,437)	(544,641)	(83,710)
Goodwill impairment	—	—	(310,124)	(17,665)	(2,527)	(388)
Fair value change of contingent consideration	—	—	292,471	—	—	—
Total operating expenses	(492,514)	(756,734)	(1,237,796)	(1,562,600)	(2,020,335)	(310,520)
Gain on deconsolidation and disposal of subsidiaries	—	—	—	103,960	37,989	5,839
Operating income	476,033	1,078,804	1,162,009	1,771,484	2,699,231	414,866
Income before income tax expenses	565,809	1,214,480	1,162,512	1,783,811	2,891,178	444,369
Net income attributable to YY Inc.	477,727	1,064,472	1,033,243	1,523,918	2,493,235	383,207
Weighted average number of ADS used in calculating net income per						

Edgar Filing: YY Inc. - Form 20-F

ADS:						
Basic	56,123,784	57,657,035	56,259,499	56,367,166	59,323,007	59,323,007
Diluted	59,056,065	59,927,174	57,541,558	60,805,566	60,831,887	60,831,887
Net income per ADS ⁽³⁾						
Basic	8.51	18.46	18.37	27.04	42.03	6.46
Diluted	8.09	17.76	17.96	26.40	41.33	6.35
Weighted average number of common shares used in calculating net income per common share:						
Basic	1,122,475,688	1,153,140,699	1,125,189,978	1,127,343,312	1,186,460,144	1,186,460,144
Diluted	1,181,121,297	1,198,543,473	1,150,831,163	1,216,111,329	1,216,637,741	1,216,637,741
Net income per common share ⁽³⁾						
Basic	0.43	0.92	0.92	1.35	2.10	0.32
Diluted	0.40	0.89	0.90	1.32	2.07	0.32

For the year ended December 31, 2016, revenue presentation has been changed to live streaming, online games, (1) membership and others. We also have retrospectively changed the revenue presentation for the years ended December 31, 2013, 2014 and 2015.

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

	For the Year Ended December 31,					US\$
	2013	2014	2015	2016	2017	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands)					
Cost of revenues	9,860	18,037	23,963	15,894	42,759	6,572
Research and development expenses	39,587	54,141	70,951	78,816	122,348	18,805
Sales and marketing expenses	1,318	2,807	3,283	3,107	4,417	679
General and administrative expenses	66,331	59,647	87,175	59,469	88,137	13,546
Total	117,096	134,632	185,372	157,286	257,661	39,602

(3) Each ADS represents 20 Class A common shares.

	As of December 31,					US\$
	2013	2014	2015	2016	2017	
	RMB	RMB	RMB	RMB	RMB	
	(in thousands)					
Selected Consolidated Statements of Operations Data:						
Cash and cash equivalents	729,598	475,028	928,934	1,579,743	2,617,432	402,292
Short-term deposits	1,432,863	4,214,576	1,894,946	3,751,519	6,000,104	922,199
Restricted short-term deposits	—	—	—	—	1,000,000	153,697
Short-term investments	—	—	—	—	124,550	19,143
Goodwill	1,577	300,382	151,638	14,300	11,716	1,801
Total assets*	2,597,947	6,820,519	7,302,754	9,785,792	14,458,719	2,222,265
Convertible bonds (current)**	—	—	—	2,768,469	—	—
Total current liabilities	701,313	1,090,558	1,384,414	4,690,448	3,145,799	483,499
Convertible bonds (non-current)	—	2,405,705	2,572,119	—	6,536	1,005
Long-term payable	—	183,000	—	—	—	—
Total mezzanine equity	—	—	61,833	9,272	524,997	80,691
Class A common shares (US\$0.00001 par value; 10,000,000,000 shares authorized, 622,658,738, 706,173,568, 728,227,848, 750,115,028 and 945,245,908 shares issued and outstanding as of December 31, 2013, 2014, 2015, 2016 and 2017 respectively)	38	43	43	44	57	9
Class B common shares (US\$0.00001 par value; 1,000,000,000 shares authorized, 485,831,386, 427,352,696, 369,557,976, 359,557,976 and 317,982,976 shares issued and outstanding as of December 31, 2013, 2014, 2015, 2016 and 2017 respectively)	34	30	27	26	23	4

Edgar Filing: YY Inc. - Form 20-F

(Accumulated deficits) Retained earnings	(874,697)	173,963	1,207,168	2,728,736	5,218,110	802,009
Total shareholders' equity	1,887,209	3,090,164	3,246,819	5,052,555	10,712,859	1,646,538

Effectively January 2016, ASU 2015-3 issued by FASB requires entities to present the issuance costs of bonds in the balance sheet as a direct deduction from the related bonds rather than assets. Accordingly, we retrospectively reclassified RMB42.3 million and RMB25.3 million of issuance cost of bonds from other non-current assets into convertible bonds as of December 31, 2014 and December 31, 2015, respectively.

** Convertible bonds classified in current liabilities represent convertible senior notes which may be redeemed within one year.

Exchange Rate Information

Our business is primarily conducted in China and most of our revenues are denominated in RMB. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.5063 to US\$1.00, the exchange rate on December 29, 2017 as set forth in the H.10 statistical release published by the Federal Reserve Board. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign currency and through restrictions on foreign exchange activities. On April 20, 2018, the exchange rate, as set forth in the H.10 statistical release of the Federal Reserve Board, was RMB6.2945 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our other periodic reports or any other information to be provided to you.

Period	Noon Buying Rate		High	Low
	Period End	Average ⁽¹⁾		
	(RMB per US\$1.00)			
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
October	6.6328	6.6254	6.6533	6.5712
November	6.6090	6.6200	6.6385	6.5967
December	6.5063	6.5932	6.6210	6.5063
2018				
January	6.2841	6.4233	6.5263	6.2841
February	6.3280	6.3183	6.3471	6.2649
March	6.2726	6.3174	6.3565	6.2685
April (through April 20, 2018)	6.2945	6.2859	6.3045	6.2655

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our capital stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this annual report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our capital stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

Our business is based on a relatively new business model in a relatively new market in which user demand may change or decrease substantially.

Many of the elements of our business are unique, evolving and relatively unproven. The markets for our technology, especially our live streaming technology, and products and services are relatively new and rapidly developing and are subject to significant challenges. Our business plan relies heavily upon increased revenues from our live streaming, online games and membership services, as well as our ability to successfully monetize our user base and products and services, and we may not succeed in any of these respects.

As the online live streaming industry in China is relatively young and untested, there are few proven methods of projecting user demand or available industry standards on which we can rely. Furthermore, some of our current monetization methods are in a relatively preliminary stage. For example, if we fail to properly manage the supply and timing of our in-game virtual items and the appropriate price points for these products and services, our users may be less likely to purchase in-game virtual items from us. For non-game virtual items, we consider industry standards and expected user demand in determining how to most effectively optimize virtual item merchandizing. We cannot assure you that our attempts to monetize our user base and products and services will continue to be successful, profitable or widely accepted, and therefore the future revenue and income potential of our business are difficult to evaluate.

If we fail to effectively manage our growth or implement our business strategies, our business and results of operations may be materially and adversely affected.

We have experienced a period of significant rapid growth and expansion that has placed, and continues to place, significant strain on our management and resources. We cannot assure you that this level of significant growth will be sustainable or achieved at all in the future. We believe that our continued growth will depend on our ability to develop new sources of revenue, increase monetization, attract new users, retain and expand paying users, encourage additional purchases by our paying users, continue developing innovative products, services and technologies in response to user demand, increase brand awareness through marketing and promotional activities, react to changes in user access to and use of the internet, expand into new market segments, integrate new devices, platforms and operating systems, develop new advertising and promotion methods, attract new advertisers and retain existing advertisers and take advantage of any growth in the relevant markets. We cannot assure you that we will achieve any of the above or achieve any of the above in a cost-effective manner.

To manage our growth and maintain profitability, we anticipate that we will need to continue to implement, from time to time, a variety of new and upgraded operational and financial systems, procedures and controls on an as-needed basis. We will also need to further expand, train, manage and motivate our workforce and manage our relationships with users, performers, third party game developers, advertisers media platforms and other business partners. All of these endeavors involve risks and will require substantial management efforts and skills and significant additional expenditures. We cannot assure you that we will be able to effectively manage our growth or implement our future business strategies, and failure to do so may materially and adversely affect our business and results of operations.

We cannot guarantee that we will be able to successfully carry out our overseas expansion strategy. We will face certain risks inherent in doing business internationally, including but not limited to: difficulties in developing, staffing and simultaneously managing a foreign operation as a result of distance, language and cultural differences; challenges in formulating effective local sales and marketing strategies targeting users from various jurisdictions and cultures, who have a diverse range of preferences and demands; challenges in identifying appropriate local business partners and establishing and maintaining good working relationships with them; dependence on local platforms in marketing our international products and services overseas; challenges in selecting suitable geographical regions for international business; political or social unrest or economic instability; compliance with applicable foreign laws and regulations and unexpected changes in laws or regulations; exposure to different tax jurisdictions that may subject us to greater fluctuations in our effective tax rate and potentially adverse tax consequences; and increased costs associated with doing business in foreign jurisdictions.

We are a relatively young company, and you should consider our prospects in light of the risks and uncertainties which early-stage companies in evolving industries in China with limited operating histories may be exposed to or encounter, including possible volatility in the trading prices of our ADSs.

We expect that we will continue to incur significant costs and expenses in many aspects of our business, such as sales and marketing expenses to acquire users and raise our brand awareness, as well as research and development costs to update existing services and launch new services and rising bandwidth costs to support our video function, grow our user base and generally expand our business operations. We have been profitable since 2012 and achieved accumulated profitability since 2014, but we may not generate sufficient revenues to offset such costs to achieve or sustain profitability in the future. In addition, we expect to continue to invest heavily in our operations to maintain our current market position, support our anticipated future growth and meet our expanded reporting and compliance obligations as a public company.

Our profitability is also affected by other factors beyond our control. The continued success of our business depends on our ability to identify which services will appeal to our user base and to offer such services on commercially acceptable terms. Our ability to finance our planned expansion also depends in part on our ability to convert active users into paying users and increase the average revenue per paying user, or ARPU, and successfully compete in a very competitive market.

We have a limited operating history. We introduced YY Client in July 2008 and have experienced a high growth rate since then. As a result of our relatively short history, our historical results of operations may not provide a meaningful basis for evaluating our business, financial performance and future prospects. We may not be able to achieve similar growth rates in future periods. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance. We may again incur net losses in the future and you should consider our prospects in light of the risks and uncertainties which early-stage companies in evolving industries in China with limited operating histories such as ours may be exposed to or encounter, including risks associated with being a public company with business operations located mainly in China. See “—Risks Related to Our ADSs—The trading prices of our ADSs are likely to be volatile, which could result in substantial losses to investors.”

Our business is heavily dependent on revenues from live streaming services. If our live streaming revenue declines in the future, our results of operations may be materially and adversely affected.

Historically, a substantial majority of our revenues are from live streaming service, online games, and membership subscription fees. In the year ended December 31, 2017, revenues from live streaming, online games and membership subscription fees constituted 98.4% of our total net revenue, with revenues from live streaming alone accounting for 92.0% of our total net revenue. We expect that our business will continue to be dependent on revenues from live streaming services in the future. Any decline in live streaming revenues may materially and adversely affect our

results of operations. See “—The revenue model for each of our live streaming and our membership program may not remain effective, which may affect our ability to retain existing users and attract new users and materially and adversely affect our business, financial condition and results of operations.”

We may be held liable for information or content displayed on, retrieved from or linked to our platforms, or distributed to our users, and PRC authorities may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses necessary to operate our platforms.

Our live streaming platforms enable users to exchange information, generate and distribute content, advertise products and services, conduct business and engage in various other online activities. However, because a majority of the communications on our platforms is conducted in real time, we are unable to verify the sources of all information posted thereon or examine the content generated by users before they are posted. Therefore, it is possible that users may engage in illegal, obscene or incendiary conversations or activities, including the publishing of inappropriate or illegal content that may be deemed unlawful under PRC laws and regulations on our platforms. These issues exist on YY Client, YY.com, Huya.com, Duowan.com, 100.com and our other websites and mobile applications. If any content on our platforms is deemed illegal, obscene or incendiary, or if appropriate licenses and third party consents have not been obtained, claims may be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, other unlawful activities or other theories and claims based on the nature and content of the information delivered on or otherwise accessed through our platforms. For example, we have occasionally received fines for certain inappropriate materials placed by third parties on our platforms, and may be subject to similar fines and penalties in the future. We also may face liability for copyright or trademark infringement, fraud, and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through or published on our platforms. Defending any such actions could be costly and involve significant time and attention of our management and other resources. In addition, if they find that we have not adequately managed the content on our platforms, PRC authorities may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses necessary to operate our platforms. See “Item 4. Information on the Company—B. Business Overview—PRC Regulation—Information Security and Censorship” and “Item 4. Information on the Company—B. Business Overview—PRC Regulation—Intellectual Property Rights.”

The revenue model for each of our live streaming and our membership program may not remain effective, which may affect our ability to retain existing users and attract new users and materially and adversely affect our business, financial condition and results of operations.

We operate YY Live and Huya platform, our live streaming platforms using a virtual items-based revenue model whereby users can listen to music and access other forms of entertainment, participate in or watch online dating shows, watch shows that deliver financial news and information, and get access to the live streaming of different game plays for free, and have the option of purchasing in-channel virtual items. We have generated, and expect to continue to generate, a substantial majority of our live streaming revenues using this revenue model. In 2017, revenues from live streaming contributed 92.0% of our total net revenues. Our live streaming business has experienced significant growth in recent years, but we cannot assure you that we will continue to achieve a similar growth rate in the future, as the user demand for this service may change, decrease substantially or dissipate, or we may fail to anticipate and serve user demands effectively.

We may not be able to continue to successfully implement the virtual items-based revenue model for live streaming, as popular performers, channel owners, famous professional game teams and commentators may leave our platforms and we may be unable to attract new talent that can attract users or cause such users to increase the amount of time spent engaging and money spent on purchasing in-channel virtual items on our platforms. In addition, certain content on our live streaming platforms, such as certain online games owned by or licensed to certain gaming companies or publishers, may not continue to be available to our users for live streaming purposes. Failure to keep our users engaged in th