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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 November 2013

Commission File Number: 001-35729

YY INC.

Building 3-08, Yangcheng Creative Industry Zone
No. 309 Huangpu Avenue Middle
Tianhe District, Guangzhou 510655
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 ☒ Form 40-F o

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): o

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): o

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No ☒

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/ ERIC HE

Name: Eric He
Title: Chief Financial Officer

Date: November 14, 2013

EXHIBIT INDEX

Exhibit No.	Description
Exhibit 99.1	Press release regarding launching of proposed offering of convertible senior notes
Exhibit 99.2	Unaudited interim condensed consolidated financial statements
Exhibit 99.3	Management's discussion and analysis of financial condition and results of operations

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EXHIBIT INDEX

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Exhibit 99.1

YY INC.

ANNOUNCES PROPOSED OFFERING OF US$250 MILLION CONVERTIBLE SENIOR NOTES

GUANGZHOU, CHINA—November 14, 2013: YY Inc. (NASDAQ: YY), a revolutionary rich communication social platform ("YY" or the "Company"), today announced that it proposes to offer up to US$250 million in aggregate principal amount of convertible senior notes due 2018 (the "notes"), subject to market conditions and other factors. The Company intends to grant to the initial purchasers a 30-day option to purchase up to an additional US$50 million principal amount of notes to cover over-allotments, if any. The notes will be convertible into YY's American depositary shares ("ADSs"), each representing, as of the date of this press release, 20 Class A common shares of YY. The notes will mature on November 15, 2018 and may not be redeemed by YY prior to maturity. Holders will have the right to require YY to repurchase the notes on November 15, 2016 or upon the occurrence of certain fundamental changes. YY anticipates using a portion of the proceeds to pay for its expenses associated with the capped call transactions described below. YY also plans to use up to US$50 million of the proceeds to repurchase ADSs and intends to use the remainder of the proceeds for other general corporate purposes, including working capital needs and potential acquisitions of complementary businesses. The conversion rate and other terms of the notes have not been finalized and will be determined at the time of pricing of the offering.

In connection with the offering, the Company expects to enter into capped call transactions. The capped call transactions are expected generally to reduce the potential dilution of the Company's Class A common shares and ADSs upon a conversion of notes in the event that the market value per ADS of the Company, as measured under the terms of the capped call transactions, is greater than the strike price of the capped call transactions (which initially corresponds to the initial conversion price of the notes and is subject to certain adjustments).

The Company has been advised that, in connection with hedging the capped call transactions, the hedge counterparties or their affiliates expect to enter into various derivative transactions with respect to the Company's ADSs concurrently with, or shortly after, the pricing of the notes and may, from time to time following the pricing of the notes, enter into or unwind various derivatives and/or purchase or sell the Company's ADSs in secondary market transactions. These activities could increase (or reduce the size of any decrease in) the price of the Company's ADSs concurrently with or following the pricing of the notes, and may also cause an increase or a decrease in the price of the Company's ADSs following any conversion of notes and during the period prior to, at or following the maturity date.

The notes, the ADSs deliverable upon conversion of the notes and the Class A common shares represented thereby have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction. They may be offered and sold only in a transaction not subject to, or exempt from, registration under the Securities Act and other applicable securities laws. Accordingly, YY is offering the notes only to qualified institutional buyers ("QIBs") in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act.

This press release shall not constitute an offer to sell or a solicitation of an offer to purchase any of these securities, and shall not constitute an offer, solicitation or sale of the notes, the ADSs deliverable upon conversion of the notes or the Class A common shares represented thereby in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful.

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

About YY Inc.

YY Inc. is a revolutionary rich communication social platform that engages users in real-time online group activities through voice, text and video. Launched in July 2008, YY Client, the Company's core product, empowers users to create and organize groups of varying sizes to discover and participate in a wide range of online activities, including online games, karaoke, music concerts, education, live shows and conference calls.

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. Among other things, the business outlook and quotations from management in this announcement, as well as YY's strategic and operational plans, contain forward-looking 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 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; the expectation regarding the rate at which to gain registered user accounts, active users, especially paying users; YY's ability to monetize the user base; YY's ability to continue attracting advertisers and offering popular online games; 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.

Investor Relations Contact

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Exhibit 99.2

YY Inc.

Index to Unaudited Interim Condensed Consolidated Financial Statements

YY Inc.

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2012 AND SEPTEMBER 30, 2013

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

	Note	As of December 31, 2012	As of September 30, 2013	As of September 30, 2013
		RMB	RMB	US$ (Note 2(c))
Assets				
Current assets				
Cash and cash equivalents	3	504,702	882,697	144,232
Short-term deposits	4	897,698	982,781	160,585
Accounts receivable, net	5	117,616	104,839	17,131
Amount due from a related party	15	1,073	73	12
Prepayments and other current assets		25,149	64,353	10,515
Deferred tax assets		31,549	49,435	8,078
Total current assets		1,577,787	2,084,178	340,553
Non-current assets				
Deferred tax assets		583	695	114
Investments	6	2,950	24,341	3,977
Property and equipment, net	7	90,299	94,094	15,375
Intangible assets, net	8	19,481	24,097	3,937
Goodwill		1,604	1,584	259
Other non-current assets		3,485	4,409	720
Total non-current assets		118,402	149,220	24,382
Total assets		1,696,189	2,233,398	364,935
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable		28,149	53,457	8,735
Deferred revenue	9	159,859	240,096	39,231
Advances from customers		7,515	13,429	2,194
Income taxes payable		48,001	61,042	9,974
Accrued liabilities and other current liabilities	10	120,289	178,652	29,192
Amounts due to related parties	15	2,604	2,799	457
Total current liabilities		366,417	549,475	89,783
Non-current liabilities				
Deferred revenue	9	6,487	5,434	888
Total liabilities		372,904	554,909	90,671
Commitments and contingencies	17			

YY Inc.

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2012 AND SEPTEMBER 30, 2013 (Continued)

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

	Note	As of December 31, 2012	As of September 30,	
			2013	2013
		RMB	RMB	US$ (Note 2(c))
Shareholders' equity				
Class A common shares (US$0.00001 par value; 10,000,000,000 and 10,000,000,000 shares authorized, 179,400,000 and 517,767,104 shares issued and outstanding as of December 31, 2012 and September 30, 2013, respectively)		11	32	5
Class B common shares (US$0.00001 par value; 1,000,000,000 and 1,000,000,000 shares authorized, 907,833,224 and 586,337,520 shares issued and outstanding as of December 31, 2012 and September 30, 2013, respectively)		60	40	7
Additional paid-in capital		2,648,404	2,740,713	447,829
Accumulated deficits		(1,311,767)	(1,026,056)	(167,655)
Accumulated other comprehensive loss		(13,423)	(36,240)	(5,922)
Total shareholders' equity		1,323,285	1,678,489	274,264
Total liabilities and shareholders' equity		1,696,189	2,233,398	364,935

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

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

	Note	For the nine months ended September 30, 2012 RMB	2013 RMB	2013 US$ (Note 2(c))
Net revenues				
Internet value-added service				
—YY music		180,301	516,295	84,362
—Online game		234,239	439,284	71,778
—Others		54,825	135,754	22,182
Online advertising		83,840	119,827	19,580
Total net revenues		553,205	1,211,160	197,902
Cost of revenues(1)	11	(277,194)	(585,188)	(95,619)
Gross profit		276,011	625,972	102,283
Operating expenses(1)				
Research and development expenses		(122,603)	(191,866)	(31,351)
Sales and marketing expenses		(10,993)	(20,744)	(3,390)
General and administrative expenses		(76,046)	(151,357)	(24,732)
Total operating expenses		(209,642)	(363,967)	(59,473)
Other income		1,304	19,107	3,122
Operating income		67,673	281,112	45,932
Gain on disposal of an equity investment		651	—	—
Foreign currency exchange (losses) gains, net		(2,989)	21,749	3,554
Interest income		10,527	40,681	6,647
Income before income tax expenses		75,862	343,542	56,133
Income tax expenses	12	(19,934)	(59,121)	(9,660)
Income before share of income in equity method investments, net of income taxes		55,928	284,421	46,473
Share of income in equity method investments, net of income taxes		22	1,290	212
Net income attributable to YY Inc.		55,950	285,711	46,685
Accretion to convertible redeemable preferred shares redemption value		(115,013)	—	—
Net (loss) income attributable to common shareholders		(59,063)	285,711	46,685

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013 (Continued)

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

	Note	For the nine months ended September 30, 2012 RMB	2013 RMB	2013 US$ (Note 2(c))
Net income		55,950	285,711	46,685
Other comprehensive income:				
Foreign currency translation adjustments, net of nil tax		3,170	(22,817)	(3,728)
Comprehensive income attributable to YY Inc.		59,120	262,894	42,957
Net (loss) income per ADS*				
—basic	14	(2.18)	5.10	0.83
—diluted	14	(2.18)	4.87	0.80
Weighted average number of ADS used in calculating—basic (loss) income per ADS	14	27,126,055	55,989,991	55,989,991
Weighted average number of ADS used in calculating—diluted (loss) income per ADS	14	27,126,055	58,713,803	58,713,803
Net (loss) income per common share*				
—basic	14	(0.11)	0.26	0.04
—diluted	14	(0.11)	0.24	0.04
Weighted average number of common shares used in calculating —basic (loss) income per common share	14	542,521,102	1,119,799,820	1,119,799,820
Weighted average number of common shares used in calculating —diluted (loss) income per common share	14	542,521,102	1,174,276,067	1,174,276,067

* Each ADS represents 20 Class A common shares.

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

	Note	For the nine months ended September 30, 2012 RMB	2013 RMB	2013 US$ (Note 2(c))
Cost of revenues		6,315	6,618	1,081
Research and development expenses		26,312	27,714	4,528
Sales and marketing expenses		668	873	143
General and administrative expenses		41,454	56,996	9,313

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

YY Inc.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICITS) EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

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

	Note	Class A common shares		Class B common shares		Additional paid-in capital	Accumulated deficits	Accumulated other comprehensive loss	Total shareholders' deficits
		Number of shares	Amount	Number of shares	Amount				
			RMB		RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2011		—	—	543,340,914	37	584,093	(2,433,604)	(12,219)	(1,861,693)
Share-based compensation—share options	13	—	—	—	—	2,628	—	—	2,628
Share based compensation—restricted shares	13	—	—	—	—	29,141	—	—	29,141
Share-based compensation—restricted share units	13	—	—	—	—	37,678	—	—	37,678
Share-based compensation—restricted shares to the CEO and Chairman		—	—	—	—	5,302	—	—	5,302
Accretion of Series A convertible redeemable preferred shares to redemption value		—	—	—	—	(45,131)	—	—	(45,131)
Accretion of Series B convertible redeemable preferred shares to redemption value		—	—	—	—	(32,919)	—	—	(32,919)
Accretion of Series C convertible redeemable preferred shares to redemption value		—	—	—	—	(36,963)	—	—	(36,963)
Components of comprehensive income									
Net income		—	—	—	—	—	55,950	—	55,950
Foreign currency translation adjustment, net of nil tax		—	—	—	—	—	—	3,170	3,170
Balance as of September 30, 2012		—	—	543,340,914	37	543,829	(2,377,654)	(9,049)	(1,842,837)
Balance as of December 31, 2012		179,400,000	11	907,833,224	60	2,648,404	(1,311,767)	(13,423)	1,323,285
Issuance of common shares for		2,982,460	—	—	—	109	—	—	109

exercised share options									
Issuance of common shares for vested restricted shares and restricted share units		13,888,940	1	—	—	(1)	—	—	—
Class B common shares converted to Class A common shares		321,495,704	20	(321,495,704)	(20)	—	—	—	—
Share-based compensation —share options	13	—	—	—	—	11,448	—	—	11,448
Share based compensation —restricted shares	13	—	—	—	—	7,681	—	—	7,681
Share-based compensation —restricted share units	13	—	—	—	—	73,072	—	—	73,072
Components of comprehensive income									
Net income		—	—	—	—	—	285,711	—	285,711
Foreign currency translation adjustment, net of nil tax		—	—	—	—	—	—	(22,817)	(22,817)
Balance as of September 30, 2013		517,767,104	32	586,337,520	40	2,740,713	(1,026,056)	(36,240)	1,678,489

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

(All amounts in thousands)

	Note	For the nine months ended September 30, 2012 RMB	2013 RMB	2013 US$ (Note 2(c))
Cash flows from operating activities				
Net income		55,950	285,711	46,685
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation of property and equipment	7	19,407	32,543	5,317
Amortization of acquired intangible assets	8	2,296	3,225	527
Allowance for doubtful accounts	5	3,332	17,103	2,795
Loss on disposal of property and equipment		—	1	—
Impairment of equity investments		453	899	147
Share-based compensation	13	74,749	92,201	15,065
Share of income of equity investments		(22)	(1,290)	(212)
Gain on disposal of an equity investment		(651)	—	—
Deferred income taxes, net	12	(16,552)	(17,998)	(2,941)
Foreign exchange losses (gains), net		2,989	(21,748)	(3,554)
Changes in operating assets and liabilities, net				
Accounts receivable	5	(36,734)	(4,326)	(707)
Prepayments and other current and non-current assets		(8,509)	(41,593)	(6,796)
Amounts due from related parties		(148)	—	—
Amounts due to related parties	15	342	195	32
Accounts payable		5,648	25,530	4,172
Deferred revenue	9	76,842	79,184	12,939
Advances from customers		2,572	5,914	966
Income taxes payable		23,767	13,041	2,131
Accrued liabilities and other current liabilities		29,407	64,155	10,485
Net cash provided by operating activities		235,138	532,747	87,051
Cash flows from investing activities				
Placements of short-term deposits		(585,931)	(768,410)	(125,557)
Maturities of short-term deposits		599,475	683,327	111,655
Purchase of property and equipment		(46,236)	(36,760)	(6,007)
Purchase of intangible assets		(800)	(8,013)	(1,309)
Cash paid for equity investments		(1,000)	(19,000)	(3,105)
Cash paid for a cost investment		—	(2,000)	(327)
Cash received from disposal of a cost investment		1,000	3,000	490
Consideration paid in connection with business acquisition		(11,722)	—	—
Loan to a related party	15	(1,200)	—	—
Repayment of loan from related parties	15	1,500	1,000	163
Loans to employees		(1,730)	(2,570)	(420)
Repayment of loans from employees		473	1,035	169
Proceeds from disposal of property and equipment		28	41	7
Net cash used in investing activities		(46,143)	(148,350)	(24,241)
Cash flows from financing activities				
Proceeds from exercise of vested share options		—	109	18
Payments of listing expenses		—	(5,802)	(948)
Net cash used in financing activities		—	(5,693)	(930)
Net increase in cash and cash equivalents		188,995	378,704	61,880
Cash and cash equivalents at the beginning of the period		128,891	504,702	82,468
Effect of exchange rate changes on cash and cash equivalents		111	(709)	(116)
Cash and cash equivalents at the end of the period		317,997	882,697	144,232
Supplemental disclosure of cash flows information:				
—Acquisition of property and equipment in form of accounts payable		11,930	5,614	917
—Income taxes paid		(12,719)	(64,078)	(10,470)

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and principal activities

(a) Principal activities

YY Inc. (the "Company"), through its subsidiaries, and its variable interest entities ("VIEs") (collectively, the "Group") is principally engaged in operating an online social platform in the People's Republic of China (the "PRC" or "China") through its platform, YY Client and through its website *YY.com* and *Duowan.com*.

(b) Initial Public Offering

The Company completed its initial public offering ("IPO") on November 21, 2012 on the NASDAQ Global Market and the underwriters subsequently exercised their over-allotment option on December 5, 2012. The Company issued and sold a total of 8,970,000 American Depositary shares ("ADSs") in these transactions, representing 179,400,000 Class A common shares. Each ADS represents twenty Class A common shares. Upon the completion of the IPO, all of the Company's 359,424,310 outstanding preferred shares and 548,408,914 outstanding common shares were converted into Class B common shares immediately as of the same date.

(c) Subsidiaries and VIEs

The details of the subsidiaries and VIEs as of September 30, 2013 are set out below:

Name	Place of incorporation	Date of incorporation	% of direct or indirect economic ownership	Principal activities
Subsidiaries				
Duowan Entertainment Corporation ("Duowan BVI")	British Virgin Islands	November 6, 2007	100%	Investment holding
NeoTasks Inc. ("NeoTasks")	Cayman Islands	April 26, 2006	100%	Investment holding
NeoTasks Limited	Hong Kong	June 16, 2005	100%	Investment holding
HuanjuShidai Technology (Beijing) Company Limited ("Beijing HuanjuShidai" or "Duowan Entertainment")*	PRC	March 19, 2008	100%	Investment holding
Zhuhai Duowan Information Technology Company Limited ("Zhuhai Duowan" or "Guangzhou Duowan")**	PRC	April 9, 2007	100%	Online advertising and software development
Guangzhou HuanjuShidai Information Technology Company Limited ("Guangzhou HuanjuShidai")***	PRC	December 2, 2010	100%	Software development

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

1. Organization and principal activities (Continued)

Name	Place of incorporation	Date of incorporation	% of direct or indirect economic ownership	Principal activities
Variable Interest Entities ("VIEs")				
Guangzhou Huaduo Network Technology Company Limited ("Guangzhou Huaduo")	PRC	April 11, 2005	100%	Holder of internet content provider licenses and internet value added services
Beijing Tuda Science and Technology Company Limited ("Beijing Tuda")	PRC	June 2, 2005	100%	Holder of internet content provider licenses

* Formerly known as Duowan Entertainment Information Technology (Beijing) Company Limited.

** Formerly known as Zhuhai Duowan Technology Company Limited.

*** Formerly known as Guangzhou Duowan Information Technology Company Limited.

2. Summary of significant accounting policies

(a) Basis of presentation and use of estimates

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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, 2012 and for the period ended December 31, 2012. 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 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 condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the unaudited condensed consolidated financial statements have read or have access to the audited consolidated financial statements as of December 31, 2012 and for the period ended December 31, 2012. The condensed consolidated balance sheet at December 31,

2. Summary of significant accounting policies (Continued)

2012 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States of America. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2012 and for the period ended December 31, 2012.

(b) Consolidation

The Group's consolidated financial statements include the financial statements of the Company, its subsidiaries and its VIEs for which the Company or its subsidiary is the primary beneficiary. All transactions and balances among the Company, its subsidiaries and its 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 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. Beijing HuanjuShidai and ultimately the Company holds all the variable interests of the VIEs and has been determined to be the primary beneficiary of the VIEs.

(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$1.00 = RMB6.1200 on September 30, 2013 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

(d) 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 nine months ended September 30, 2012 and 2013, respectively.

(e) Segment reporting

Operating segments are defined as components of an enterprise engaging in business activities for which separate financial information is available that is regularly evaluated by the Group's chief operating decision makers 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

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

2. Summary of significant accounting policies (Continued)

consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group has internal reporting of cost and expenses that does not distinguish between segments, and reports costs and expenses by nature as a whole. The Group does not distinguish between markets or segments for the purpose of internal reporting. Hence, the Group has only one operating segment. As the Group's long-lived assets and revenue are substantially located in and derived from the PRC, no geographical segments are presented.

(f) Recently issued accounting pronouncements

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists", an update to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward exists. The guidance requires an entity to present an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, except for when a net operating loss carryforward is not available as of the reporting date to settle taxes that would result from the disallowance of the tax position or when the entity does not intend to use the deferred tax asset for purposes of reducing the net operating loss carryforward. The guidance is effective for fiscal years beginning after December 15, 2013 and for interim periods within that fiscal year. The Company does not expect the adoption of this guidance to have a material effect on the Group's financial statements.

3. Cash and cash equivalents

Cash and cash equivalents represent cash on hand, demand deposits placed with banks or other financial institutions, which have original maturities of three months or less. Cash and cash equivalents balance as of December 31, 2012 and September 30, 2013 primarily consist of the following currencies:

	December 31, 2012		September 30, 2013	
	Amount	RMB equivalent	Amount	RMB equivalent
RMB	460,176	460,176	870,229	870,229
US$	7,084	44,526	2,028	12,468
Total		504,702		882,697

4. Short-term deposits

Short-term deposits represent deposits placed with banks with original maturities of more than three months but less than one year. Short-term deposits are all denominated in RMB.

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

5. Accounts receivable, net

	December 31, 2012	September 30, 2013
	RMB	RMB
Accounts receivable, gross	123,332	121,169
Less: allowance for doubtful receivables	(5,716)	(16,330)
Accounts receivable, net	117,616	104,839

The following table presents movement of the allowance for doubtful receivables:

	For the nine months ended September 30,	
	2012	2013
	RMB	RMB
Balance at the beginning of the period	—	5,716
Additions charged to general and administrative expenses	3,332	17,103
Write-off during the period	(1,168)	(6,489)
Balance at the end of the period	2,164	16,330

6. Investments

	December 31, 2012	September 30, 2013
	RMB	RMB
Equity investments	2,950	22,341
Cost investments	—	2,000
Total	2,950	24,341

7. Property and equipment, net

	December 31, 2012	September 30, 2013
	RMB	RMB
Gross carrying amount		
Servers, computers and equipment	103,005	136,393
Leasehold improvement	22,831	23,019
Furniture, fixture and office equipment	9,083	9,667
Motor vehicles	2,999	3,785
Construction in progress	—	1,349
Total	137,918	174,213
Less: accumulated depreciation	(47,619)	(80,119)
Property and equipment, net	90,299	94,094

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

7. Property and equipment, net (Continued)

Depreciation expense for the nine months ended September 30, 2012 and 2013 were RMB19,407 and RMB32,543, respectively.

No impairment loss for property and equipment had been recognized for the nine months ended September 30, 2012 and 2013.

8. Intangible assets, net

The following table summarizes the Group's intangible assets:

	December 31, 2012 RMB	September 30, 2013 RMB
Gross carrying amount		
Software	4,235	5,006
Technology	9,962	17,183
Domain name	11,477	11,227
Total gross carrying amount	25,674	33,416
Less: accumulated amortization		
Software	(1,808)	(2,844)
Technology	(1,659)	(3,220)
Domain name	(2,176)	(2,705)
Total accumulated amortization	(5,643)	(8,769)
Less: impairment		
Software	(550)	(550)
Intangible assets, net	19,481	24,097

Amortization expense for the nine months ended September 30, 2012 and 2013 were RMB2,296 and RMB3,225, respectively.

No impairment loss for intangible assets had been recognized for the nine months ended September 30, 2012 and 2013.

The estimated amortization expenses for each of the following five years as of September 30, 2013 are as follows:

Twelve months ended September 30	Domain name RMB	Technology RMB	Software RMB
2014	768	3,437	991
2015	753	3,437	467
2016	738	3,437	91
2017	738	2,297	36
2018	738	1,355	27

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

8. Intangible assets, net (Continued)

The weighted average amortization periods of intangible assets as of December 31, 2012 and September 30, 2013 are as below:

	December 31, 2012	September 30, 2013
Domain name	15 years	15 years
Technology	5 years	5 years
Software	3 years	3 years

9. Deferred revenue

	December 31, 2012 RMB	September 30, 2013 RMB
Deferred revenue, current:		
Online game	75,269	89,446
Membership subscription	53,401	68,780
YY music	29,137	77,988
Government grants	1,919	1,830
Others	133	2,052
Total current deferred revenue	159,859	240,096
Deferred revenue, non-current :		
Membership subscription	4,329	3,560
Government grants	2,158	1,352
Others	—	522
Total non-current deferred revenue	6,487	5,434

10. Accrued liabilities and other current liabilities

	December 31, 2012 RMB	September 30, 2013 RMB
Accrued salaries and welfare	54,688	92,557
Accrued revenue-sharing fees	19,504	37,503
Accrued bandwidth costs	15,679	19,512
Value added taxes payable	8,718	5,948
Business and other taxes payable	7,422	10,485
Accrued listing expenses	7,020	1,180
Accrued technology service fee	2,162	4,080
Deposits from advertising customers	1,750	500
Others	3,346	6,887
Total	120,289	178,652

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

11. Cost of revenues

	For the nine months ended September 30,	
	2012	2013
	RMB	RMB
Revenue sharing fees and content costs	62,001	278,920
Bandwidth costs	102,682	143,512
Salaries and welfare	32,702	61,591
Business tax and surcharges	21,456	30,453
Depreciation and amortization	17,634	26,704
Payment handling costs	16,035	17,521
Shared-based compensation	6,315	6,618
Other costs	18,369	19,869
Total	277,194	585,188

12. Income tax

(i) Cayman Islands ("Cayman")

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) British Virgin Islands ("BVI")

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

(iii) Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profit for the nine months ended September 30, 2012 and 2013.

(iv) PRC Enterprise Income Tax ("EIT")

Current taxation primarily represented the provision for EIT for subsidiaries and VIEs operating in the PRC. Prior to January 1, 2008, companies established in the PRC were generally subject to a state and local corporate income tax, or EIT, at statutory rates of 30% and 3%, respectively. On March 16, 2007, the PRC National People's Congress promulgated the New Enterprise Income Tax Law (the "New EIT Law"), which became effective on January 1, 2008. The Company's subsidiaries and VIEs are subject to EIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC. All PRC entities of the Group (including subsidiaries and VIEs) are subject to EIT at a rate of 25%. In 2011, Guangzhou Huaduo has been qualified as a "High and New Technology Enterprise" ("HNTE") under the EIT Law. Therefore, it was entitled to a preferential tax rate of 15% from 2011 to 2012. As of September 30, 2013, Guangzhou Huaduo was in the process of renewing such entitlement by applying

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

12. Income tax (Continued)

to the relevant government authorities. The Group expects Guangzhou Huaduo will continue to be qualified as a HNTE and enjoy the preferential tax rate.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engage in research and development activities are entitled to claim 150% of the research and development expenses so incurred in a year as tax deductible expenses in determining its tax assessable profits for that year ("Super Deduction"). Guangzhou Huaduo had claimed such Super Deduction in ascertaining its tax assessable profits for the periods reported. Zhuhai Duowan and Guangzhou HuanjuShidai started to claim Super Deduction in ascertaining its tax assessable profits in 2011 and 2013, respectively.

In addition, according to the New EIT Law and its implementation rules, foreign enterprises, which have no establishment or place in the PRC but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in the PRC shall be subject to PRC withholding tax ("WHT") at 10% (a further reduced WHT rate may be available according to the applicable double tax treaty or arrangement). The 10% WHT is applicable to any dividends to be distributed from Beijing HuanjuShidai and Guangzhou HuanjuShidai to Duowan BVI out of any profits of Beijing HuanjuShidai and its subsidiaries, and Guangzhou HuanjuShidai derived after January 1, 2008.

Up to September 30, 2013, the Group does not have any present plan to pay out the retained earnings in the subsidiaries and VIEs in the foreseeable future. The Group currently intends to retain the available funds and any future earnings to operate and expand its business. Accordingly, no such WHT had been accrued.

The current and deferred portions of income tax expense included in the consolidated statements of operations are as follows:

	For the nine months ended September 30,	
	2012	2013
	RMB	RMB
Current income tax expenses	(36,486)	(77,119)
Deferred income tax benefits	16,552	17,998
Income tax expense for the period	(19,934)	(59,121)

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

12. Income tax (Continued)

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

	For the nine months ended September 30,	
	2012	2013
PRC statutory income tax rate	(25.0)%	(25.0)%
Effect of preferential tax rate	10.5%	10.9%
Effect of tax-exempt entities	0.1%	2.6%
Permanent differences*	(17.9)%	(5.1)%
Change in valuation allowance	(0.9)%	(4.4)%
Effect of Super Deduction available to the Group	6.9%	3.8%
Effective income tax rate	(26.3)%	(17.2)%

* Permanent differences mainly arise from expenses not deductible for tax purposes including primarily share-based compensation costs and expenses incurred by subsidiaries and VIEs.

13. Share-based compensation

(a) Share options

Pre-2009 Scheme Options

Grant of options

Before the adoption of the Employee Equity Incentive Scheme (the "2009 Incentive Scheme"), 12,705,700 and 8,499,050 share options were granted to employees through individually signed share option agreements, respectively to acquire common shares of Duowan BVI on a one-to-one basis on January 1, 2008 and 2009. In addition, on January 1, 2008, 3,832,290 share options were granted to one non-employee for the provision of consulting services to the Group (collectively defined as "Pre-2009 Scheme Options").

Vesting of options

These Pre-2009 Scheme Options will vest over a four year service period, with 25% of the options vesting after the first anniversary of the vesting inception date and the remaining 75% in six equal installments over the following 36 months. The options may be exercised provided that both the service conditions and a performance condition are met. The performance condition is defined to be i) an initial public offering, ii) completion of a financing meeting certain criteria, iii) an internal reorganization, or iv) a voluntary winding up of Duowan BVI. The performance condition that is tied to completion of a financing fulfilling certain criteria was met in June 2008 or November 2009.

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

13. Share-based compensation (Continued)

The following table summarizes the activities of the Pre-2009 Scheme Options for employees and non-employee for the nine months ended September 30, 2012 and 2013:

	Number of options	Weighted average exercise price (US$)	Weighted average remaining contractual life (years)	Aggregate intrinsic value (US$)
Outstanding, January 1, 2012	17,889,535	0.0055	6.37	19,366
Forfeited	(19,110)	0.0067		
Outstanding, September 30, 2012	17,870,425	0.0055	5.62	20,339
Outstanding, January 1, 2013	17,870,425	0.0055	5.37	12,642
Exercised	(2,982,460)	0.0059	4.60	
Outstanding, vested and exercisable at September 30, 2013	14,887,965	0.0055	4.63	34,741

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

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company's common shares as of September 30, 2013 and the exercise price.

Prior to the completion of the IPO, the Binomial option pricing model is used to determine the fair value of the share options granted to employees and the non-employee. The fair values of share options granted or remeasured during the nine months ended September 30, 2012 were estimated using the following assumptions:

Pre-2009 Scheme Options granted to employees and a non-employee:

	As of September 30, 2012
Risk-free interest rate(1)	3.254%
Expected term(2)	5.25 years
Volatility rate(3)	56.13%
Dividend yield(4)	—

(1) 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.

(2) The expected term is the contract life of the option.

(3) Expected volatility is estimated based on the average of historical volatilities of the comparable companies in the same industry as at the valuation dates.

(4) Duowan BVI and the Company have no history or expectation of paying dividend on its common shares. The expected dividend yield was estimated based on the Company's expected dividend policy over the expected term of the option.

13. Share-based compensation (Continued)

For the nine months ended September 30, 2012 and 2013, the Company recorded share-based compensation of RMB2,628 and RMB11,448, respectively, using the graded-vesting attribution method for employees and non-employee.

As of September 30, 2013, the Pre-2009 Scheme Options granted to employees and non-employees had been fully vested and there was nil unrecognized share-based compensation expense relating to Pre-2009 Scheme Options granted to employees and the non-employee.

Upon the completion of the IPO, the fair value of share options granted to a non-employee with nil exercise price was assessed to be equivalent to the fair value of the Company's common share. These share options were remeasured at the stock price of the Company's common share as of September 30, 2013.

(b) Restricted shares

Since January 1, 2010, Duowan BVI granted 61,250,677 restricted shares to employees and 100,000 restricted shares to a non-employee pursuant to the 2009 Incentive Scheme.

Vesting of restricted shares

The restricted shares have vesting conditions and will vest 50% after 24 months of the grant date and the remaining 50% will vest in two equal installments over the next 24 months. Under the restricted shares agreement, no shares may be sold or transferred prior to the occurrence of an exit event, as defined in the respective restricted share agreements as: i) a listing on any recognized stock exchange, ii) a sale by Duowan BVI of all or substantially all of its assets, iii) a sale of all of the issued capital of Duowan BVI, or iv) passing for court order of winding up of Duowan BVI.

If the employee terminates employment, the service vested portion of the restricted shares may be subject to: (i) repurchase (subject to Company's sole discretion) by Duowan BVI at fair value of common shares of Duowan BVI which is assessed by the Company with the assistance of an independent valuation company; or (ii) be held by a person who is an existing employee of the Group and is designated by the leaving restricted share holder according to a properly signed escrow agreement to hold such shares for and on his/her behalf. If the leaving employee fails to deliver a properly signed agreement to Duowan BVI within 30 days from receipt of the notification from Duowan BVI, such service vested shares shall automatically lapse and expire.

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

13. Share-based compensation (Continued)

The following table summarizes the restricted shares activity for the nine months ended September 30, 2012 and 2013:

	Number of restricted shares	Weighted average grant-date fair value (US$)
Outstanding, January 1, 2012	43,285,101	0.4885
Forfeited	(3,606,080)	0.4862
Vested	(10,919,318)	0.4447
Outstanding, September 30, 2012	28,759,703	0.5054
Outstanding, January 1, 2013	18,230,801	0.4898
Forfeited	(776,513)	0.8411
Vested	(4,460,585)	0.4111
Outstanding, September 30, 2013	12,993,703	0.4958
Expected to vest at September 30, 2013	12,681,040	0.4921

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

For the nine months ended September 30, 2012 and 2013, the Company recorded share-based compensation of RMB29,141 and RMB7,681, respectively, using the graded-vesting method for employees and non-employee.

As of September 30, 2013, total unrecognized compensation expense relating to the restricted shares was RMB6,896. The expense is expected to be recognized over a weighted average period of 0.59 years using the graded vesting attribution method.

(c) Restricted Share Units

On September 16, 2011, the Board of the Directors of the Company approved the 2011 Share Incentive Plan, which permits the grant of share options, restricted shares and restricted share units of up to 43,000,000 shares, to any qualified persons, as determined by the Board of Directors of the Company.

In October 2012, the Board of Directors of the Company resolved that the maximum aggregate number of Class A common shares which may be issued pursuant to all awards under the 2011 Incentive Scheme shall be 43,000,000 plus an annual increase of 20,000,000 on the first day of each fiscal year, beginning from 2013, or such lesser amount of Class A common shares as determined by the Board of Directors of the Company.

The restricted share units granted to employees pursuant to the 2011 Share Incentive Plan are primarily subject to vesting over a period from four to five years. No restricted share units were granted to non-employees up to September 30, 2013.

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

13. Share-based compensation (Continued)

The following table summarizes the restricted share units activity for the nine months ended September 30, 2012 and 2013:

	Number of restricted share units	Weighted average grant-date fair value (US$)
Outstanding, January 1, 2012	8,996,300	1.0630
Granted	15,600,221	1.1136
Forfeited	(492,900)	1.0833
Outstanding, September 30, 2012	24,103,621	1.0953
Outstanding, January 1, 2013	26,695,621	1.0369
Granted	29,867,989	0.9289
Forfeited	(1,400,492)	1.0591
Vested	(3,282,347)	1.0518
Outstanding, September 30, 2013	51,880,771	0.9736
Expected to vest at September 30, 2013	48,711,897	0.9764

For the nine months ended September 30, 2012 and 2013, the Company recorded share-based compensation of RMB37,678 and RMB73,072 using the graded-vesting attribution method.

As of September 30, 2013, total unrecognized compensation expense relating to the restricted share units was RMB178,633. The expense is expected to be recognized over a weighted average period of 1.37 years using the graded-vesting attribution method.

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

14. Basic and diluted net (loss) income per share

Basic and diluted net (loss) income per share for the nine months ended September 30, 2012 and 2013 are calculated as follows:

	For the nine months ended September 30,	
	2012	2013
	RMB	RMB
Numerator:		
Net income attributable to the Company	55,950	285,711
Accretion to convertible redeemable preferred shares redemption value	(115,013)	—
Numerator of basic net (loss) income per share	(59,063)	285,711
Dilutive effect of preferred shares	—	—
Numerator for diluted (loss) income per share	(59,063)	285,711
Denominator:		
Denominator for basic calculation—weighted average number of Class A and Class B common shares outstanding	542,521,102	1,119,799,820
Dilutive effect of preferred shares	—	—
Dilutive effect of share options	—	17,208,629
Dilutive effect of restricted shares	—	14,772,544
Dilutive effect of restricted share units	—	22,495,074
Dilutive effect of share-based awards granted to CEO and Chairman	—	—
Denominator for diluted calculation	542,521,102	1,174,276,067
Basic net (loss) income per Class A and Class B common share	(0.11)	0.26
Diluted net (loss) income per Class A and Class B common share	(0.11)	0.24
Basic net (loss) income per ADS*	(2.18)	5.10
Diluted net (loss) income per ADS*	(2.18)	4.87

* The Company was listed on November 21, 2012 with issuance of a total of 8,970,000 ADS at a public offering price of US$10.50 per ADS. Each ADS represents 20 Class A common shares. The net (loss) income per ADS for the nine months ended September 30, 2012 was calculated using the same conversion ratio assuming the ADSs had been in existence during these periods.

The Company's preferred shares are participating securities and as such would be included in the calculation of basic earnings per share under the two-class method. According to the contractual terms of the preferred shares, the preferred shares do not have a contractual obligation to share in the losses of the Company. Therefore, no loss was allocated to the preferred shares in the computation of basic loss per share for the nine months ended September 30, 2012.

The Preferred Shares, the share-based awards granted to the CEO and Chairman, share option, restricted shares and restricted share units were excluded from the computation of diluted net loss per common share for the nine months ended September 30, 2012 because including them would have had

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

14. Basic and diluted net (loss) income per share (Continued)

an anti-dilutive effect. The following table summarizes information regarding weighted average of common shares equivalents for the nine months ended September 30, 2012:

	For the nine months ended September 30, 2012
Preferred shares-weighted average	359,424,310
Share-based awards granted to CEO and Chairman—weighted average	17,763,764
Share options-weighted average	17,878,446
Restricted shares-weighted average	39,264,725
Restricted share units-weighted average	15,751,288

15. Related party transactions

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

Related Party	Relationship with the Group
Zhuhai Daren Computer Technology Company Limited ("Zhuhai Daren")	Equity investment
Guangzhou Shanghang Information Technical Co., Ltd. ("Shanghang")	Significant influence exercised by the Chairman as key shareholder
Zhuhai Lequ Technology Co., Ltd. ("Zhuhai Lequ")	Equity investment
Xiaomi Corporation ("Xiaomi")	Significant influence exercised by the Chairman as a Chairman
Kingsoft Corporation ("Kingsoft")	Significant influence exercised by the Chairman as a Chairman

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

15. Related party transactions (Continued)

During the nine months ended September 30 2012 and 2013, significant related party transactions were as follows:

	For the nine months ended September 30,	
	2012	2013
	RMB	RMB
Online game revenue sharing from Zhuhai Daren	5,032	18,309
Membership subscription fee revenue from Xiaomi	227	—
Bandwidth service provided by Shanghang	8,875	14,304
Purchase of intangible assets from Kingsoft	—	6,010
Advertising revenue from Xiaomi	—	1,154
Online game revenue sharing from Zhuhai Lequ	—	1,004
Repayment of interest-free loan from Zhuhai Daren	1,000	—
Interest-free loan to Zhuhai Lequ	1,200	—
Repayment of interest-free loan from Zhuhai Lequ	500	1,000
Disposal of a cost investment to the Chairman and Co-founder, who is also a director of the Company	1,000	—
Disposal of an equity investment to Xiaomi	2,000	—

As of December 31, 2012 and September 30, 2013, the amounts due from/to related parties were as follows:

	December 31, 2012	September 30, 2013
	RMB	RMB
Amount due from a related party		
Other receivable from Zhuhai Lequ	1,073	73
Total	1,073	73
Amounts due to related parties		
Account payable to Zhuhai Daren	2,362	1,916
Account payable to Zhuhai Lequ	—	453
Other payable to Shanghang	242	430
Total	2,604	2,799

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

16. 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

16. Fair value measurements (Continued)

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 financial instruments that were required to be measured at fair value on a recurring basis as of December 31, 2012 and September 30, 2013.

The Group's financial instruments consist principally of cash, short-term deposits, accounts receivable, amounts due to/from related parties, accounts payable and certain accrued expenses. The recorded values of cash, accounts receivable, amounts due to/from related parties, accounts payable and certain accrued expenses are recorded at cost which approximates fair value.

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

17. Commitments and contingencies

(a) Operating lease commitments

The Group leases facilities in the PRC under non-cancellable 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 RMB11,193 and RMB14,351 for the nine months ended September 30, 2012 and 2013, respectively.

As of September 30, 2013, future minimum payments under non-cancellable operating leases consist of the following:

Twelve months ended September 30,	Office rental RMB
2014	17,515
2015	16,341
2016	3,511
2017 and thereafter	—
	37,367

(b) Capital commitment

As of September 30, 2013, the Group did not have any capital commitment.

(c) Litigation

The Group is not currently a party to, nor is aware of, any legal proceeding, investigation or claim which is likely to have a material adverse effect on the Group's business, financial condition, results or operations, or cash flows. The Group did not record any legal contingencies as of September 30, 2013.

18. Subsequent events

The Group evaluated subsequent events through November 14, 2013, which was the date these financial statements were issued, with no material events or transactions needing recognition or disclosure found.

19. Restricted net assets

Relevant PRC laws and regulations permit payments of dividends by the Group's subsidiaries and the VIEs incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's subsidiaries and the VIEs in the PRC are required to annually appropriate 10% of their net after-tax income to the statutory general reserve fund prior to payment of any dividends, unless such reserve funds have reached 50% of their respective registered capital. As a result of these and other restrictions under PRC laws and regulations, the Group's subsidiaries and the VIEs incorporated in the PRC are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion as calculated under US GAAP amounted to

19. Restricted net assets (Continued)

approximately RMB311,399 and RMB652,475 as of December 31, 2012 and September 30, 2013, respectively. There are no differences between US GAAP and PRC accounting standards in connection with the reported net assets of the legally owned subsidiaries in the PRC and the VIEs. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends or distributions to our shareholders. Except for the above, there is no other restriction on use of proceeds generated by the Group's subsidiaries and the VIEs to satisfy any obligations of the Company.

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Exhibit 99.3

Discussion of Selected Statements of Operations Items

Revenues

In the nine months ended September 30, 2013, we primarily derived our revenues from internet value-added services, or IVAS, and online advertising. Our IVAS revenues are primarily comprised of revenues from the paying users of YY Music, online games and, to a lesser degree, our membership subscriptions and live game broadcasting. Our online advertising revenues primarily consist of revenues from the sale of online advertising in various formats primarily on Duowan.com and YY Client. We expect that in the future, as is the case in the nine months ended September 30, 2013, an increasing portion of our revenues will be derived from non-game IVAS revenues, including revenues from in-channel virtual items sold on YY Client, such as virtual flowers and gifts for use in various channels, as well as other online products and services.

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.

	For the Year Ended December 31,						For the Nine Months Ended September 30,				
	2010		2011		2012		2012		2013		
	RMB	% of total net revenues	RMB	% of total net revenues	RMB	% of total net revenues	RMB	%of total net revenues	RMB	US$	% of total net revenues
									(Unaudited)		
	(in thousands, except for percentages)										
Total net revenues: (1)											
IVAS:											
YY Music	—	—	52,854	16.5	286,446	34.9	180,301	32.6	516,295	84,362	42.6
Online games	86,316	67.3	165,933	51.9	332,287	40.5	234,239	42.3	439,284	71,778	36.3
Others	1,282	1.0	13,589	4.3	83,655	10.2	54,825	9.9	135,754	22,182	11.2
Online advertising	40,740	31.7	87,279	27.3	117,643	14.4	83,840	15.2	119,827	19,580	9.9
Total	128,338	100.0	319,655	100.0	820,031	100.0	553,205	100.0	1,211,160	197,902	100.0

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

IVAS revenues. We generate IVAS revenues from (i) the sales of in-channel virtual items used on YY Music, (ii) the sales of virtual items under the offering of online games developed by us or by third parties under revenue-sharing arrangements on YY Client and (iii) other revenues, including membership subscription fees and in-channel virtual items used on live game broadcasting. Users play online games on YY and access channels free of charge, but are charged for purchases of virtual items which can be used in online games or YY channels.

The most significant factors that directly affect our IVAS revenues include the increase in the number of our paying users and the average revenue per paying user, or ARPU.

- *The number of paying users.* The number of our paying users increased from approximately 400,000 in September 2012 to 667,000 in September 2013. We had approximately 1.8 million and 2.5 million paying users in the nine months ended September 30, 2012 and 2013, respectively. 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 YY Client at least once during the relevant period. We were able to achieve an increase in the number of paying users primarily due to 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.* Our ARPU for IVAS was approximately RMB260.8 and RMB436.5 (US$71.3) in the nine months ended September 30, 2012 and 2013, respectively. ARPU is calculated by dividing our total revenues from IVAS during a given period by the number of paying users for that period. As we begin to generate revenues from an increasing variety of IVAS, our ARPU may fluctuate from period to period due to the mix of IVAS purchased by our paying users.

Significant factors that directly or indirectly affect our IVAS revenues include:

- our ability to increase our popularity by offering new and attractive products and services that allow us to monetize our platform;
- our ability to attract and retain a large and engaged user base; and
- our ability to attract and retain third party game developers and service providers as well as certain popular performers and channel owners.

We expect that the portion of our revenues from IVAS derived from the sales of non-game virtual items and services will continue to increase, as we capitalize on monetization opportunities. 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 channels. The percentage of our total revenues attributable to virtual items sold on YY Music increased from 32.6% for the nine months ended September 2012 to 42.6% for the nine months ended September 2013.

The online games we currently offer on YY Client are primarily web games that can be run from an internet browser and require an internet connection to play. We have historically derived a significant portion of our revenues from a limited number of popular online games, primarily through selling in-game virtual items for these games. All of our popular online games are developed by third party game developers under revenue-sharing arrangements that typically last one to two years. We expect that a large portion of our online game IVAS revenues will continue to be derived from online games developed by third party online game developers in the future, as we do not intend to develop any additional online games internally. We derive an increasingly lower percentage of our revenues from online games as a whole, as we continue to monetize other non-game aspects of the YY platform, such as YY Music.

We also offer a wide range of online advertising formats and solutions. We enter into advertising contracts with both advertisers and advertising agencies. Advertisers pay to place advertisements on Duowan.com and YY Client in different formats over a particular period of time. In the nine months ended September 30, 2013, the vast majority of our online advertising revenues was derived from pay-for-time arrangements under which we charge advertisers depending on the duration of display for an advertisement or a series of advertisements.

Cost of Revenues

Cost of revenues consists primarily of (i) revenue sharing fees and content costs, (ii) bandwidth costs, (iii) salary and welfare, (iv) business tax and surcharges, (v) depreciation and amortization, (vi) payment handling costs and (vii) share-based compensation. We anticipate that revenue sharing fees and content costs, which consist of the payments to channel owners and performers in YY music channels and those entitled to revenue sharing in various channels activities in YY platform, such as the channel owners in live game broadcasting, and content owners of products sold in YY platform, will increasingly contribute to our cost of revenues. 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.

Revenue sharing fees and content costs. Our revenue sharing fees and content costs paid to performers, channel owners and content providers increased from RMB62.0 million in the nine months ended September 30, 2012 to RMB278.9 million (US$45.6 million) in the nine months ended September 30, 2013. We also incurred a non-recurring cost in the nine months ended September 30, 2013 due to our partnership with Hunan Satellite Television Station in the *2013 Happy Boy Show*, a popular entertainment show in China. We expect our revenue sharing fees and content costs to increase as we continue to expand our IVAS offerings.

Bandwidth costs. Our bandwidth costs increased from RMB102.7 million in the nine months ended September 30, 2012 to RMB143.5 million (US$23.4 million) in the nine months ended September 30, 2013. We expect bandwidth costs to increase as our user base continues to expand and as YY Music and other video-related services become more popular in the future.

Salary and welfare. Our salary and welfare costs increased from RMB32.7 million in the nine months ended September 30, 2012 to RMB61.6 million (US$10.1 million) in the nine months ended September 30, 2013. We expect our salary and welfare costs to increase as we continue to hire additional employees in line with the expansion of our business.

Business tax and surcharges. Our business tax and surcharges increased from RMB21.5 million in the nine months ended September 30, 2012 to RMB30.5 million (US$5.0 million) in the nine months ended September 30, 2013.

Depreciation and amortization. Our depreciation and amortization increased from RMB17.6 million in the nine months ended September 30, 2012 to RMB26.7 million (US$4.4 million) in the nine months ended September 30, 2013. We expect depreciation and amortization to increase as we continue to expand our operations and purchase servers and other equipment or intangibles directly related to the operating of our platform and business.

Payment handling costs. Our payment handling costs increased from RMB16.0 million in the nine months ended September 30, 2012 to RMB17.5 million (US$2.9 million) in the nine months ended September 30, 2013. We expect payment handling costs to increase as we continue to grow our paying users and expand our paid service offerings.

Share-based compensation. Our share-based compensation allocated to the cost of revenues increased from RMB6.3 million in the nine months ended September 30, 2012 to RMB6.6 million (US$1.1 million) in the nine months ended September 30, 2013.

Operating Expenses

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

	For the Year Ended December 31,						For the Nine Months Ended September 30,				
	2010		2011		2012		2012		2013		
	RMB	% of total net revenues	RMB	% of total net revenues	RMB	% of total net revenues	RMB	% of total net revenues	RMB	US$	% of total net revenues
									(Unaudited)		
	(in thousands, except for percentages)										
Operating expenses:											
Research and development expenses	49,219	38.4	106,804	33.4	176,725	21.6	122,603	22.2	191,866	31,351	15.9
Sales and marketing expenses	12,363	9.6	13,381	4.2	16,954	2.1	10,993	2.0	20,744	3,390	1.7
General and administrative expenses	192,222	149.8	118,241	37.0	109,788	13.4	76,046	13.7	151,357	24,732	12.5
Total operating expenses	253,804	197.8	238,426	74.6	303,467	37.1	209,642	37.9	363,967	59,473	30.1

Research and Development Expenses

Research and development expenses consist primarily of salaries and benefits for research and development personnel and rental and depreciation of office premise and servers utilized by the research and development personnel. Research and development expenses increased from RMB122.6 million in the nine months ended September 30, 2012 to RMB191.9 million (US$31.4 million) in the nine months ended September 30, 2013, due to the need for additional research and development personnel to accommodate the rapid growth of our business. We expect our research and development expenses in absolute amount to increase as 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 platform, improve technology infrastructure to further enhance user experience, and further develop enhanced features for Mobile YY to reach more users.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, benefits and commissions for our sales and marketing personnel, share-based compensation expenses and advertising and promotion expenses. Our sales and marketing expenses increased from RMB11.0 million in the nine months ended September 30, 2012 to RMB20.7 million (US$3.4 million) in the nine months ended September 30, 2013, primarily reflecting increased promotional activities and increased commissions for our sales and marketing personnel as our advertising revenues increased.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and benefits, including share-based compensation for our general and administrative personnel, professional service fees, legal expenses and other administrative expenses. Our general and administrative expenses generally increased from RMB76.0 million in the nine months ended September 30, 2012 to RMB151.4 million (US$24.7 million) in the nine months ended September 30, 2013 as our business expanded, primarily due to the hiring of additional management and administrative staff and increase in share-based compensation expenses. We expect our general and administrative expenses to increase in the future as our business grows and we continue to incur costs related to complying with our reporting obligations under the U.S. securities laws as a public company.

Share-based Compensation Expenses

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

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US$
					(Unaudited)	
			(in thousands)			
Research and development expenses	21,627	31,672	35,441	26,312	27,714	4,528
Sales and marketing expenses	1,499	1,336	884	668	873	143
General and administrative expenses	182,101	86,544	55,619	41,454	56,996	9,313
Total	205,227	119,552	91,944	68,434	85,583	13,984

As of September 30, 2013, we had 1,573 employees. 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.

As a result of repurchases of certain awards offered in 2009 and in 2011, certain initially equity-classified employee and non-employee awards have been reclassified as liability-classified awards, as these awards were deemed to have a substantive cash settlement feature. These awards are re-measured at the end of each reporting period until either the substantive cash settlement is terminated or the holder of the awards is exposed to the market value fluctuation of the underlying shares for a reasonable period of time (at least six months), or the awards are settled, cancelled or expire unexercised.

On September 15, 2011, our Board resolved not to undertake any repurchases of vested or unvested share-based compensation awards, except under those conditions specified in the relevant award scheme and grant documents. Accordingly, the classification of the liability-classified awards was changed to being equity-classified, and the related liability was reclassified as additional paid-in capital on the modification date. After the awards were changed to equity-classified awards, they were measured based on the fair value of the awards on September 15, 2011, and the expenses to be recognized over the remaining requisite service period are calculated using the graded vesting attribution method.

Taxation

Cayman Islands

According to our Cayman Islands counsel, Conyers Dill & Pearman (Cayman) Limited, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to us or our operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our shares, debentures or other obligations.

The undertaking is for a period of twenty years from August 2, 2011.

British Virgin Islands

Duowan BVI is our wholly owned subsidiary.

As Duowan BVI is a BVI business company subject to the provisions of the BVI Business Companies Act 2004 (as amended), it is exempt from all provisions of the Income Tax Act of the BVI (including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by Duowan BVI to persons who are not persons resident in the BVI).

Capital gains realized with respect to any shares, debt obligations or other securities of a company by persons who are not persons resident in the BVI are also exempt from all provisions of the Income Tax Act of the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligations or other securities of Duowan BVI, save for interest payable to or for the benefit of an individual resident in the European Union.

Hong Kong

The Company's subsidiary registered in Hong Kong is subject to Hong Kong Profits Tax on the taxable income as reported in its respective statutory financial statements adjusted in accordance with relevant Hong Kong tax laws. The applicable tax rate is 16.5% in Hong Kong.

PRC

Current taxation primarily represented the provision for a state and local corporate income tax, or EIT, for subsidiaries and variable interest entities, or VIEs, operating in the PRC. Prior to January 1, 2008, companies established in the PRC were generally subject to EIT at statutory rates of 30% and 3% respectively. On March 16, 2007, the PRC National People's Congress promulgated the New EIT Law, which became effective on January 1, 2008. These subsidiaries and VIEs are subject to new EIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC. All our PRC entities are subject to EIT at a rate of 25%, with the exception of any preferential treatments they may receive, such as the 15% preferential tax rate that Guangzhou Huaduo can enjoy for the years from 2011 to 2012 due to its qualification as a high and new technology enterprise. As of September 30, 2013, Guangzhou Huaduo was in the process of renewing such entitlement by applying to the relevant government authorities. We expect Guangzhou Huaduo will continue to be qualified as a high new technology enterprise and enjoy the preferential tax rate.

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 150% of the research and development expenses so incurred in a year as tax deductible expenses in determining its tax assessable profits for that year, or Super Deduction. Guangzhou Huaduo has claimed such Super Deduction in ascertaining its tax assessable profits for the periods reported, Zhuhai Duowan and

Guangzhou Huanjushidai started to claim such Super Deduction in ascertaining its tax assessable profits in 2011 and 2013, respectively.

In addition, according to the New EIT Law and its implementation rules, foreign enterprises, which have no establishment or place in the PRC but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in the PRC shall be subject to PRC withholding tax, or WHT, at 10% (a further reduced WHT rate may be available according to the applicable double tax treaty or arrangement). The 10% WHT is applicable to any dividends to be distributed from Beijing Huanju Shidai and Guangzhou Huanju Shidai to our company out of any profits Beijing Huanju Shidai and its subsidiaries and Guangzhou Huanju Shidai derived after January 1, 2008. We do not have any present plan to pay out the retained earnings in the PRC subsidiaries and PRC consolidated affiliated entities in the foreseeable future. We currently intend to retain our available funds and any future earnings to operate and expand our business. Accordingly, no such WHT has been accrued.

Our PRC subsidiaries and PRC consolidated affiliated entities are subject to business taxes or value added tax and related surcharges. On January 1, 2012, the Chinese State Council officially launched a pilot value added tax reform program, or Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay value added tax instead of business tax. Prior to the Pilot Program, revenues from IVAS and advertising revenues are subject to business tax at rates of 3% and 5%, respectively. After the launch of Pilot Program, revenues from IVAS are subject to 3% business tax except that online game revenues are subject to 6% VAT, while advertising revenues are subject to 6% VAT. Surcharges are calculated based on 12% of the business taxes and VAT payable for the nine months ended September 30, 2013. Business taxes and related surcharges during the nine months ended September 30, 2013 were RMB30.5 million (US$5.0 million).

For more information on PRC tax regulations, see "Item 4. Information on the Company—B. Business Overview—PRC Regulation—Regulation on Tax" in our 2012 Annual Report.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. Our business has grown rapidly since our inception. Our limited operating history makes it difficult to predict future operating results. We believe that period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	For the Year Ended December 31,						For the Nine Months Ended September 30,				
	2010		2011		2012		2012		2013		
	RMB	% of total net revenues	RMB	% of total net revenues	RMB	% of total net revenues	RMB	% of total net revenues	RMB	US$	% of total net revenues
									(Unaudited)		
	(in thousands, except for percentages)										
IVAS:											
YY Music	—	—	52,854	16.5	286,446	34.9	180,301	32.6	516,295	84,362	42.6
Online game	86,316	67.3	165,933	51.9	332,287	40.5	234,239	42.3	439,284	71,778	36.3
Others	1,282	1.0	13,589	4.3	83,655	10.2	54,825	9.9	135,754	22,182	11.2
Online advertising	40,740	31.7	87,279	27.3	117,643	14.3	83,840	15.2	119,827	19,580	9.9
Total net revenues[1]	128,338	100.0	319,655	100.0	820,031	100.0	553,205	100.0	1,211,160	197,902	100.0
Cost of revenues	(110,062)	(85.8)	(182,699)	(57.2)	(416,133)	(50.7)	(277,194)	(50.1)	(585,188)	(95,619)	(48.3)
Gross profit	18,276	14.2	136,956	42.8	403,898	49.3	276,011	49.9	625,972	102,283	51.7
Operating expenses											
Research and development expenses	(49,219)	(38.4)	(106,804)	(33.4)	(176,725)	(21.6)	(122,603)	(22.2)	(191,866)	(31,351)	(15.9)
Sales and marketing expenses	(12,363)	(9.6)	(13,381)	(4.2)	(16,954)	(2.1)	(10,993)	(2.0)	(20,744)	(3,390)	(1.7)
General and administrative expenses	(192,222)	(149.8)	(118,241)	(37.0)	(109,788)	(13.4)	(76,046)	(13.7)	(151,357)	(24,732)	(12.5)
Total operating expenses	(253,804)	(197.8)	(238,426)	(74.6)	(303,467)	(37.0)	(209,642)	(37.9)	(363,967)	(59,473)	(30.1)
Other income	—	—	1,982	0.6	2,465	0.3	1,304	0.2	19,107	3,122	1.6
Operating (loss) income	(235,528)	(183.5)	(99,488)	(31.1)	102,896	12.5	67,673	12.2	281,112	45,932	23.2
Gain on disposal of an equity investment	—	—	—	—	651	0.1	651	0.1	—	—	—
Gain on disposal of a cost investment	—	—	—	—	2,351	0.3	—	—	—	—	—
Foreign currency exchange (losses) gains, net	(551)	(0.4)	14,143	4.4	(4,153)	(0.5)	(2,989)	(0.5)	21,749	3,554	1.8
Interest income	56	0.0	4,890	1.5	16,316	2.0	10,527	1.9	40,681	6,647	3.4
(Loss) income before income tax expenses	(236,023)	(183.9)	(80,455)	(25.2)	118,061	14.4	75,862	13.7	343,542	56,133	28.4
Income tax expenses	(2,322)	(1.8)	(1,343)	(0.4)	(29,041)	(3.5)	(19,934)	(3.6)	(59,121)	(9,660)	(4.9)
(Loss) income before share of loss (income) in equity method investments, net of income taxes	(238,345)	(185.7)	(81,798)	(25.6)	89,020	10.9	55,928	10.1	284,421	46,473	23.5
Share of (loss) income in equity method investment, net of income taxes	(512)	(0.4)	(1,358)	(0.4)	157	0.0	22	0.0	1,290	212	0.1
Net (loss) income attributable to YY Inc	(238,857)	(186.1)	(83,156)	(26.0)	89,177	10.9	55,950	10.1	285,711	46,685	23.6

(1) Net of rebates and discounts.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Net Revenues. Our net revenues increased by 118.9% from RMB553.2 million in the nine months ended September 30, 2012 to RMB1,211.2 million (US$197.9 million) in the nine months ended September 30, 2013. This increase was primarily due to the increased contribution of revenues from YY Music and increases in our online game revenues as well as our membership program, and to a lesser extent, an increase in our online advertising revenues.

IVAS revenues. Our IVAS revenues, which consisted of revenues from YY Music and online games as well as other sources, increased by 132.5% from RMB469.4 million in the nine months ended September 30, 2012 to RMB1,091.3 million (US$178.3 million) in the nine months ended September 30, 2013. The overall increase primarily reflected an increase in the number of paying users and, to a lesser extent, an increase in ARPU. Our number of paying users increased from approximately 1.8 million in the nine months ended September 30, 2012 to 2.5 million for the nine months ended September 30, 2013. Our ARPU for IVAS increased from RMB260.8 for the nine months ended September 30, 2012 to RMB436.5 (US$71.3) for the nine months ended September 30, 2013. The increase in paying users and ARPU were primarily due to (a) our ability to offer new and attractive products and services that allow us to monetize our platform; (b) our ability to attract and retain a large and engaged user base through hosting an increasing number of events and activities; and (c) our ability to attract third party game developers and service providers as well as certain popular performers and channel owners.

Revenues from YY Music increased by 186.4% from RMB180.3 million for the nine months ended September 30, 2012 to RMB516.3 million (US$84.4 million) for the nine months ended September 30, 2013. In addition to the increase in the number of paying users and ARPU, the increase in YY Music IVAS revenues was also due to the increasing popularity of YY Music. Our paying users for YY Music increased from approximately 648,000 for the nine months ended September 30, 2012 to 1,301,000 for the nine months ended September 30, 2013. The increasing popularity of YY Music is primarily due to the increased number of activities we hosted.

Revenues from online games increased by 87.5% from RMB234.2 million in the nine months ended September 30, 2012 to RMB439.3 million (US$71.8 million) in the nine months ended September 30, 2013. This increase was primarily attributable to an increase in the attractiveness level of our online game platform and the popularity of the online games we offer. Our paying users for online games increased from approximately 717,000 for the nine months ended September 30, 2012 to 1,040,000 for the nine months ended September 30, 2013. The number of online games we operated as of September 30, 2012 was 68 as compared to 111 as of September 30, 2013.

Other revenues, which primarily consisted of revenues from membership subscription fees and live game broadcasting, increased by 147.6% from RMB54.8 million in the nine months ended September 30, 2012 to RMB135.8 million (US$22.2 million) in the nine months ended September 30, 2013. This increase was primarily due to an increase in the number of users who subscribed to our membership program and an increase in the popularity of live game broadcasting.

Online advertising revenues. Our online advertising revenues increased by 42.9% from RMB83.8 million in the nine months ended September 30, 2012 to RMB119.8 million (US$19.6 million) in the nine months ended September 30, 2013. This increase was primarily due to the increasing popularity of Duowan.com and YY Client.

Cost of Revenues. Our cost of revenues increased by 111.1% from RMB277.2 million in the nine months ended September 30, 2012 to RMB585.2 million (US$95.6 million) in the nine months ended September 30, 2013. The increase in our cost of revenues was due in large part to an increase in our revenue sharing fees and content costs, which consist of the payments to channel owners and performers in YY Music channels and those entitled to revenue sharing in various channels activities on our YY platform, such as the channel owners in live game broadcasting, and content owners of products sold on our YY platform, amounted to RMB278.9 million (US$45.6 million) in the nine months ended September 30, 2013, representing a 349.9% increase from RMB62.0 million in the nine months ended September 30, 2012. We also incurred a non-recurring cost in the nine months ended September 30, 2013 due to our partnership with Hunan Satellite Television Station in the *2013 Happy Boy Show*. Bandwidth costs increased 39.8% from RMB102.7 million in the nine months ended September 30, 2012 to RMB143.5 million (US$23.4 million) in the nine months ended September 30, 2013 to support our growing business operations. In addition, salary and welfare costs increased 88.3% from RMB32.7 million in the nine months ended September 30, 2012 to RMB61.6 million (US$10.1 million) in the nine months ended September 30, 2013, mainly due to our hiring of additional employees to serve our rapidly expanding user base.

Operating Expenses. Our operating expenses increased by 73.6% from RMB209.6 million in the nine months ended September 30, 2012 to RMB364.0 million (US$59.5 million) in the nine months ended September 30, 2013, primarily due to an increase in general and administrative expenses as well as research and development expenses, which was in line with the general growth of our business operations, our commitment to general research and development and the advancements in our technology development.

Research and development expenses. Our research and development expenses increased by 56.5% from RMB122.6 million in the nine months ended September 30, 2012 to RMB191.9 million (US$31.4 million) in the nine months ended September 30, 2013. This increase was primarily due to an increase in salaries and other benefits for research and development personnel, which was in turn mainly driven by an increase in the number of our research and development staff, especially engineers, which accounts for approximately 52.2% of our total number of employees.

Sales and marketing expenses. Our sales and marketing expenses increased by 88.7% from RMB11.0 million in the nine months ended September 30, 2012 to RMB20.7 million (US$3.4 million) in the nine months ended September 30, 2013. This increase was primarily due to an increase in salaries and other benefits for sales and marketing personnel and an increase in our spending on promotional activities we hosted.

General and administrative expenses. Our general and administrative expenses increased by 99.0% from RMB76.0 million in the nine months ended September 30, 2012 to RMB151.4 million (US$24.7 million) in the nine months ended September 30, 2013. This increase was primarily due to an increase in salaries and other benefits for general and administrative personnel, which was in turn mainly driven by an increase in the number of our general and administrative staff. In addition, share-based compensation allocated to general and administrative expenses increased from RMB41.5 million in the nine months ended September 30, 2012 to RMB57.0 million (US$9.3 million) in the nine months ended September 30, 2013.

Foreign Currency Exchange (Losses) Gains. We had net foreign currency exchange gains of RMB21.7 million (US$3.6 million) in the nine months ended September 30, 2013, compared to a net foreign currency exchange losses of RMB3.0 million in the nine months ended September 30, 2012. This increase was primarily due to the fact that the proceeds from our initial public offering were converted from U.S. dollars into Renminbi in the fourth quarter of 2012 and appreciation of Renminbi against U.S. dollars.

Interest Income. Our interest income increased from RMB10.5 million in the nine months ended September 30, 2012 to RMB40.7 million (US$6.6 million) in the nine months ended September 30, 2013. This increase was primarily due to higher levels of cash on hand, partly as a result of depositing the proceeds from our initial public offering in November 2012.

Income Tax Expenses. We recorded income tax expenses of RMB19.9 million in the nine months ended September 30, 2012 compared to RMB59.1 million (US$9.7 million) in the nine months ended September 30, 2013. This increase was primarily due to the higher income before income tax expenses recorded by certain of our PRC subsidiaries.

Net Income. As a result of the foregoing, we had a net income of RMB285.7 million (US$46.7 million) in the nine months ended September 30, 2013 as compared to a net income of RMB56.0 million in the nine months ended September 30, 2012.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. Although we have not in the past been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

Liquidity and Capital Resources

Cash Flows and Working Capital

We have financed our operations primarily through private placements of preferred and common shares to investors as well as cash flows from operations, and more recently the proceeds from our initial public offering in November 2012. We expect to require cash to fund our ongoing operational needs, particularly our revenue sharing fees and content costs, salaries and benefits 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.

As of September 30, 2012 and 2013, we had RMB318.0 million and RMB882.7 million (US$144.2 million), respectively, in cash and cash equivalents.

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

	For the Year Ended December 31,			For the Nine Months Ended September 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US$
					(Unaudited)	
	(in thousands)					
Net cash provided by operating activities	16,228	99,817	356,852	235,138	532,747	87,051
Net cash used in investing activities	(33,576)	(528,357)	(498,504)	(46,143)	(148,350)	(24,241)
Net cash (used in) provided by financing activities	(3,138)	477,882	522,740	—	(5,693)	(930)
Net (decrease) increase in cash and cash equivalents	(20,486)	49,342	381,088	188,995	378,704	61,880
Cash and cash equivalents at the beginning of the year/period	106,427	83,683	128,891	128,891	504,702	82,468
Effect of exchange rates change on cash and cash equivalents	(2,258)	(4,134)	(5,277)	111	(709)	(116)
Cash and cash equivalents at the end of the year/period	83,683	128,891	504,702	317,997	882,697	144,232

Operating Activities

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

Net cash provided by operating activities amounted to approximately RMB532.7 million (US$87.0 million) for the nine months ended September 30, 2013, primarily resulting from RMB1,484.6 million (US$242.6million) of cash revenues we received from the sale of IVAS and advertisements, partially offset by our sales-related cash outflow of RMB463.2 million (US$75.7 million), which mainly consisted of the amounts due to third party game developers under revenue-sharing arrangements, distributions under arrangements with certain performers and channel owners, payment collection costs and business taxes, our employee salaries and welfare payments of RMB236.8 million (US$38.7 million), our payments for the lease of bandwidth of RMB140.0 million (US$22.9 million) and our general operating costs of RMB111.9 million (US$18.3 million).

Net cash provided by operating activities amounted to approximately RMB235.1 million for the nine months ended September 30, 2012, primarily resulting from RMB685.6 million of cash revenues we received from the sale of IVAS and advertisements, partially offset by our employee salaries and welfare payments of RMB168.3 million, our sales-related cash outflow of RMB138.1 million, which mainly consisted of the amounts due to third party game developers under revenue-sharing arrangements, distributions under arrangements with certain performers and channel owners, payment collection costs and business taxes, our payments for the lease of bandwidth of RMB98.2 million and our general operating costs of RMB45.9 million.

Investing Activities

Net cash used in investing activities largely reflects purchases of property and equipment in connection with the expansion and upgrade of our technology infrastructure, purchases of intangibles assets and our investments in privately-held companies.

Net cash used in investing activities amounted to RMB148.4 million (US$24.2 million) in the first nine months of 2013. Net cash used in investing activities primarily resulted from the placements of short-term deposits of RMB768.4 million (US$125.6 million) and payments of RMB36.8 million (US$6.0 million) for the purchase of property and equipment, which mainly consisted of the purchase of servers, partially offset by the maturity of term deposits in various banks in the amount of RMB683.3 million (US$111.7 million).

Net cash used in investing activities amounted to RMB46.1 million in the first nine months of 2012. Net cash used in investing activities primarily resulted from the placements of short-term deposits of RMB585.9 million, and payments of RMB46.2 million for the purchase of property and equipment, which mainly consisted of the purchase of servers, partially offset by the maturity of term deposits in various banks in the amount of RMB599.5 million.

Financing Activities

Net cash used in financing activities was RMB5.7 million (US$0.9 million) in the first nine months of 2013, primarily attributable to the listing expenses of RMB5.8 million (US$0.9 million). We did not have any cash inflow or outflow in financing activities in the first nine months of 2012.

Capital Expenditures

We made capital expenditures of RMB69.6 million and RMB44.6 million (US$7.3 million) in the first nine months of 2012 and the first nine months of 2013, respectively. Our capital expenditures are primarily used to purchase computers, servers, office furniture and other equipment.

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2013:

	Payment Due by Period				
	Total	Less than 1 year	1-2 years	3-5 years	More than 5 years
	(in thousands of RMB)				
Operating lease obligations[1]	37,367	17,515	16,341	3,511	—

(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.

Our operating lease obligations decreased from September 30, 2012 to September 30, 2013 primarily because we entered into our major leases in 2011 and 2012. Most of these leases are scheduled to expire after 2014, and we have not yet renewed them beyond that date.

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 September 30, 2013.

Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' (deficit)/equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.