2015 Annual Report

NETDRAGON WEBSOFT INC.

網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability) Stock Code: 777

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Dejian *(Chairman)*
Mr. Liu Luyuan *(Chief Executive Officer)*
Mr. Zheng Hui
Mr. Chen Hongzhan
Dr. Leung Lim Kin, Simon

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung
Mr. Liu Sai Keung, Thomas

COMPLIANCE OFFICER

Mr. Liu Luyuan

COMPANY SECRETARY

Mr. Lau Hak Kin

QUALIFIED ACCOUNTANT

Mr. Yam Kwok Hei Benjamin, *HKICPA, CA, CFA*
Mr. Lau Hak Kin, *HKICPA, FCCA, CFA*

AUDIT COMMITTEE

Mr. Chao Guowei, Charles *(Chairman of the Committee)*
Mr. Lee Kwan Hung
Mr. Liu Sai Keung, Thomas

REMUNERATION COMMITTEE

Mr. Lee Kwan Hung *(Chairman of the Committee)*
Mr. Chao Guowei, Charles
Mr. Liu Sai Keung, Thomas

NOMINATION COMMITTEE

Mr. Liu Sai Keung, Thomas *(Chairman of the Committee)*
Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung

SHARE AWARD SCHEME COMMITTEE

Mr. Lee Kwan Hung *(Chairman of the Committee)*
Mr. Liu Sai Keung, Thomas
Mr. Yam Kwok Hei Benjamin
Mr. Lau Hak Kin

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Mr. Lau Hak Kin

HONG KONG LEGAL ADVISER

Sidley Austin

PRC LEGAL ADVISER

Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

CORPORATE INFORMATION

PRINCIPAL BANKERS

Bank of America
China Minsheng Banking Corp Ltd.
The Hong Kong and Shanghai Banking Corporation

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code

777

Listing Date

24 June 2008

Stock Name

NETDRAGON

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2001-05 & 11, 20/F.
Harbour Centre, 25 Harbour Road
Wan Chai, Hong Kong

COMPANY WEBSITE

www.nd.com.cn

CORPORATE PROFILE

NetDragon Websoft Inc. ("NetDragon" or the "Company", stock code on the Hong Kong Stock Exchange: 00777.HK) is an international leading innovator and creative force in online gaming, education and mobile Internet enterprise. It is also the pioneer of online education, corporate informatization industry and VR industry in China. It has been ranked top among its peers in terms of various economic indicators in China. It is also recognized as the National Key Software Enterprise, the National Cultural Demonstration Base and the National Key Cultural Export Enterprise. Apart from being honored as one of the Forbes Top 2000 Global Companies, the Company was also recognized as one of the Top 30 National Cultural Enterprises (全國文化企業三十強) in the sixth and seventh sessions of the event. In 2015, the Company was ranked third among the 100 Fastest-growing Listed Enterprises (高成長上市企業百強) of the "Chinese Enterprises with the Best Potential in 2015" under the Chinese version of Forbes. It has also been honored as one of the "Top 100 Internet Enterprises of China" (中國互聯網企業百強榜) released by the Ministry of Industry and Information Technology for three consecutive years. With over 4,000 staff members, the Company has been named "Excellent Employer" (卓越僱主) by Fortune for two consecutive years and has become one of the best companies to work for in China.

NetDragon has been leading the industry with the stable development of its core business. It has created the first online game portal, 17173.com, in China. As an online game pioneer, the Company has developed the flagship games, Eudemons Online (魔域), Conquer Online (征服), which have been well-received by players. It has also created the most influential and popular smartphone service platform, 91 Wireless. In 2013, the disposal of 91 Wireless from NetDragon to Baidu was the largest acquisition project in the internal history of China.

In 2015, the revenue of NetDragon for the year amounted to RMB1,272.2 million, representing an increase of 32.1%. In 2015, the Company's game products achieved satisfactory performance.The number of active users of Calibur of Spirit (英魂之刃) set a record high of 1,650,000; Tiger Knight (虎豹騎) also received many awards, including the honor of being one of the "Top Online Games of the Year".

As a pioneer to explore overseas markets under the "Go Out" policy, NetDragon continued to generate a substantial proportion of its total revenue from overseas sales of online products. NetDragon was also the first online game enterprise to expand into the international market with successful operation. Since 2003, the Company has been the provider of self-developed game products around the world, covering over 180 countries in eleven languages including English, French, Spanish and Arabic. The number of overseas registered users was over 65,000,000.

NetDragon has become the major market player of mobile and Internet education business and has been committed to becoming a global Internet education enterprise with over 10 billion users. Capitalizing on its mobile and Internet technology and know-how, NetDragon has launched an open education platform through mobile and Internet to promote equality in education, innovative education model of electric school bag and interesting animation products for moral education. After the acquisition and merger with the global Internet education enterprise, Promethean, the Company's education business coverage has extended to over 150 countries around the world, with 1,300,000 classrooms, 2,000,000 teachers and 30,000,000 students.

CORPORATE PROFILE

In 2016, following the establishment of the world's first VR open platform in Fujian, NetDragon will strive to develop its VR business in an effort to become the leader of the VR industry by turning the VR base in Fujian, China into the VR "Silicon Valley" of China and even the world.

NetDragon endeavors to transform the Haixi region into the most sophisticated cultural and creative industrial park. The "Haixi Animation Creativity City", which was designed by NetDragon, has been partially completed and commenced operation. It will be a large cultural and creative industrial base for the integration of upstream and downstream animation creativity businesses, including research and development, exchange of ideas and experiences and related animation products and talent education.

Adhering to the core value of socialism as its cultural development basis, NetDragon continues to make contribution as a social enterprise. It advocates and pursues green online practices, promotion of the Chinese traditional culture through creating animations, launch of business start-up plans for young people and implementation of long-term relief measures for disaster-affected areas. By turning the core value of socialism into actions, the Company will contribute to the prosperous development of cultural business of the Haixi region with its strengths and efforts.

For more information, please visit the official website of NetDragon: http://www.nd.com.cn

GROUP FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December				
	2011	2012	2013	2014	**2015**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	760,974	1,108,349	1,492,706	962,817	**1,272,197**
Cost of revenue	(75,032)	(116,359)	(159,638)	(102,844)	**(314,161)**
Gross profit	685,942	991,990	1,333,068	859,973	**958,036**
Other income and gains	38,156	50,025	51,956	157,101	**187,927**
Selling and marketing expenses	(140,340)	(152,173)	(167,804)	(152,495)	**(206,778)**
Administrative expenses	(210,941)	(247,628)	(441,132)	(326,934)	**(520,104)**
Development costs	(159,269)	(204,173)	(220,730)	(249,260)	**(446,229)**
Other expenses	(11,594)	(27,153)	(25,225)	(34,027)	**(24,092)**
Share of losses of associates	(581)	(1,456)	(953)	(2,354)	**(9,912)**
Share of (losses) profit of a joint venture	–	(1,391)	796	–	**–**
Operating profit (loss)	201,373	408,041	529,976	252,004	**(61,152)**
Interest income on pledged bank deposits	–	4,849	4,883	2,794	**6,018**
Exchange gain (loss) on pledged bank deposits, secured bank borrowings and redeemable convertible preferred shares	–	11,909	5,726	(5,081)	**(15,504)**
Net (loss) gain on derivative financial instruments	(17,792)	(282,424)	27,223	6,817	**(2,914)**
Gain on disposal of available-for-sale investment	–	–	5,761	–	**–**
Net gain on disposal of held-for-trading investments	–	–	–	–	**876**
Net (loss) gain on held-for-trading investments	–	(61)	8,756	(17,304)	**(9,144)**
Gain on disposal of subsidiaries, net of related income tax	–	–	5,811,963	–	**–**
Finance costs	(3,806)	(28,417)	(15,526)	(3,212)	**(5,431)**
Profit (loss) before taxation	179,775	113,897	6,378,762	236,018	**(87,251)**
Taxation	(44,532)	(74,936)	(156,314)	(64,197)	**(100,675)**
Profit (loss) for the year	135,243	38,961	6,222,448	171,821	**(187,926)**

GROUP FINANCIAL SUMMARY

	For the year ended 31 December				
	2011	2012	2013	2014	**2015**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Attributable to:					
– Owners of the Company	135,161	39,176	6,140,776	176,681	**(142,979)**
– Non-controlling interests	82	(215)	81,672	(4,860)	**(44,947)**
Profit (loss) for the year	135,243	38,961	6,222,448	171,821	**(187,926)**
Earnings (loss) per share					
– Basic (RMB cents)	25.85	7.71	1,213.44	34.77	**(28.85)**
– Diluted (RMB cents)	25.85	7.60	1,181.10	34.22	**(28.85)**

Note: The results for the year ended 31 December 2013 were presented on a combined basis of results of the Group from both continuing and discontinued operations.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2011	2012	2013	2014	**2015**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	340,833	562,833	846,894	1,470,787	**3,115,949**
Current assets	1,555,987	1,882,520	4,603,095	3,759,600	**2,386,149**
Non-current liabilities	(171,607)	(516,085)	–	(1,399)	**(164,743)**
Current liabilities	(226,319)	(513,265)	(827,111)	(611,585)	**(1,033,718)**
Non-controlling interests	458	(22,154)	(7,736)	(50,489)	**(9,791)**
Equity attributable to owners of the Company	1,499,352	1,393,849	4,615,142	4,566,914	**4,293,846**

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the Company's annual report for the year ended 31 December 2015.

The Company recorded audited revenue of RMB1.272 billion for the year ended 31 December 2015, representing a year-over-year increase of 32.1%. As we invested heavily in the R&D, acquisition and marketing of our education business, the Company recorded a net loss of RMB188 million for the year. The investment reflected our dedication in the education business. We believe the investment is laying a solid foundation for NetDragon's long-term success.

ACHIEVEMENTS

In 2015, the Company achieved several milestones as our games business steadily grew, education business made considerate progress, the team grew and the Company expanded globally.

The games business continued to contribute to the Company's profit. In 2015, the Company's games business recorded excellent performance with robust revenue growth, of 11.5% year-over-year to RMB 985 million. Revenue from overseas games reached RMB 132 million, representing a year-over-year increase of 19.5%. Faced with increasing competition, the Company enhanced its game portfolio with new games and updates. Eudemons Online (魔域) and Conquer Online (征服), our classic online games, continued to consolidate their market shares. Meanwhile, the Company's first MOBA micro-client game, Calibur of Spirit (英魂之刃), which was released in early 2015, continued to record strong operational metrics since its open beta testing. In terms of new games, Tiger Knight (虎豹騎), a 3D action strategy game, was highly anticipated by the market during the development stage in 2015, and won several awards such as "Most Anticipated New Game" of Tencent's "2015 Chinese Game Ranking." In 2016, the Company will adopt a high-quality game strategy through expanding signature games to mobile versions and introducing new games.

In 2015, the Company achieved significant progress in online education industry. The Company's online education subsidiary acquired a Series A equity fundraising round of USD52.5 million, at a valuation of USD477.5 million. The Company continued to optimize and improve our educational products. Our online education ecosystem solutions provided users with a unique user experience and value proposition by combining leading technology and high quality content. The Company's education business centered on K-12 education and extended to cater to varying educational demands from different segmented markets, including pre-school, higher, vocational, non-academic credential and lifelong education and corporate training. During the year, the Company commenced its go-to-market roll-out and successfully won several tenders, with the Company's sales contracts covering 5,000 classrooms in 400 schools across 14 provinces (or direct-controlled municipalities).

In 2015, the Company proactively completed mergers and acquisitions to build technological barriers, expanding sales channels, strengthen its teams and accelerate the global rollout of its products, thus strengthen its market competitiveness. The Company completed the acquisition of ChiVox, a domestic first-class provider specializing in intelligent voice and speech technology and will integrate the world-class intelligent voice and speech technology into the Company's education platform. Furthermore, the acquisition of Promethean, a global leader in interactive learning technologies, has enabled the Company to gain access to 1.3 million classrooms in over 150 countries with 2 million teachers and over 30 million students, further accelerating the global rollout of our products.

CHAIRMAN'S STATEMENT

In 2015, the Company constantly pushed for innovation and achieved breakthroughs in research and development. The Company adopted cutting-edge technologies and took the first lead to roll out its Virtual Reality (VR) solutions which are applicable to products in the gaming, entertainment, simulated training and distance education industries. The Company's R&D team made a great breakthrough in terms of sharing platforms, instant messaging (IM), interactive classes, application factories, wireless network, voice and handwriting reorganizations. Furthermore, the Company made strong progress in emerging fields such as mobile Internet and corporate informatization, providing new growth drivers to the Company.

Currently, with more than half of our employees in R&D, we pride ourselves on our pursuit of excellence and our belief in enthusiasm, endeavor, fairness, learning, innovation, and a customer-oriented culture. NetDragon was awarded "Employers with the Greatest Development Potential of the Year in China" by Zhaopin.

PROSPECTS

As we starting our 16th year as a leading innovator in China's Internet landscape, NetDragon excels in exploring business opportunities brought about by cutting-edge technologies and solutions. In 2016, in addition to strengthening its gaming portfolio, the Company will focus on its education business. The Company differentiates itself from its peers in the education industry not only by its comprehensive strategies and global channels, but also by its strong Internet DNA. We are confident in the Company's positioning and its competitiveness. We will also leverage our first-mover advantage in the VR sector and initiated a full business launch of our education business in 2016.

ACKNOWLEDGEMENT

I would like to take the opportunity to thank you, our shareholders and stakeholders, for your continuous support and the confidence that you have placed in us, as well as to thank all of our employees and the management team for their effort in achieving exceptional results. Looking ahead, NetDragon will continue to build an online community and strive to become a prominent design company.

Liu Dejian
Chairman

Hong Kong, 30 March 2016

(1) INDUSTRY REVIEW

Overview

NetDragon is an international leading innovator and creative force in online gaming, education and mobile internet. Its gaming business covers PC/web-based and mobile games. NetDragon recently has become a major player in the global online and mobile learning space. The global online education industry is expanding rapidly and offers enormous growth potential.

The following industry review features an analysis of the current environment and trends taking place in the games and online education industry. The review is based on public data.

Games

China's ongoing structural economic adjustment and strategic initiatives such as "Internet+" and "Mass Entrepreneurship and Innovation" have created a favorable environment for the gaming industry. Moreover, improvement in broadband speed and 4G networks have facilitated the development of the gaming industry by broadening user coverage, increasing mobile gaming, enhancing the gaming experience and generating new e-sports.

The number of game players in China reached 534 million in 2015, an increase of 3.3% year-over-year. Total gaming revenue in China reached RMB140.7 billion, an increase of 22.9% year-over-year[1].

An analysis of various market segments is as follows:

Sales of PC games in China reached RMB61.16 billion in 2015, an increase of 0.4% year-over-year[1]. The PC gaming market remained stable having already created an established user base. As the market matures, companies have adopted an increasingly conservative strategy that focuses on the stable roll out of new games and user retention for legacy games. In addition, mobile games are increasingly becoming an extension of PC games of the same IP and as they achieve greater success, developers are focusing on core user acquisition and brand building.

Sales of China's web-based games reached RMB21.96 billion in 2015, an increase of 8.3% year-over-year[1]. As operating costs associated with user acquisition creates barriers to entry, a great number of small and medium-sized companies have shifted their focus to mobile games. As a result, the market for web-based games has consolidated.

Sales of China's mobile games reached RMB 51.46 billion in 2015, an increase of 87.2% year-over-year[2] while the number of mobile game players in China reached 455 million in 2015, an increase of 27.1% year-over-year[2]. With smartphones and tablets gaining in popularity, the mobile gaming market continues to see robust growth. The market has transitioned through the years from relying on traffic acquisition to maximizing customer value. Meanwhile, R&D-focused companies with superior product offerings have gained market share and influence.

The e-sports market has emerged as a new growth driver for the mobile gaming market. Sales revenue from mobile e-sports games in China reached RMB5.97 billion in 2015, an increase of 48.5% year-over-year. Approximately 196 million people in China played e-sports games in 2015, an increase of 120.2% year-over-year[2]. The rapid growth of China's mobile e-sports games was mainly due to the increasing number of mobile e-sports products available. With the emergence of high quality MOBA and shooting games, traditional mobile game and PC-based e-sports game users have migrated towards mobile e-sports games. As a result, mobile e-sports games have great future growth potential.

China's "One Belt and One Road" initiative created new growth opportunities for the export of games overseas. In 2015, China-developed games accounted for USD 5.31 billion in overseas sales revenue, an increase of 72.4% year-over-year[1]. New high-quality Chinese games grew rapidly in Southeast Asian markets while legacy games continued to generate significant revenue. Chinese game developers have also seen breakthroughs in new markets such as Europe and the Americas.

Looking forward to 2016, the Chinese gaming industry will continue to grow across the board with different market segments at various stages of development. The overall market revenue is expected to continue its rapid growth, though the market size has limited upside potential as the PC and web-based online games market matures. The market for mobile games is still in a growth stage however with e-sports games acting as a new growth driver. There are also great opportunities in overseas markets.

In addition, China's State Council issued its "Made in China 2025" policy to promote the rapid development of intelligent hardware and in doing so, lay a foundation for game innovation and industry development. The development of related hardware including wearable intelligent devices including VR and AR devices will provide new direction for the development of gaming industry.

Online education

China deepened its comprehensive educational reform in 2015. The release of several important policies further stimulated the development of the education industry, with a particular emphasis on online education. With the informationization of education accelerating, the online education industry has begun a phase of rapid growth in terms of market scale and number of companies and users.

The market for online education in China reached RMB170 billion in 2015 and is expected to reach RMB226 billion in 2016[3]. The number of online education users reached 110 million as of 31 December 2015, accounting for 16.0% of China's overall internet population[4]. With online education companies increasing their marketing efforts, the industry has gained popularity and user acceptance. Going forward, the number of online education users is expected to grow at a CAGR of approximately 20%[5].

Taking a closer look, K-12, early education, foreign languages and vocational education are the most popular areas for innovation and investment. K-12 is the most active area in these terms and is also the sector that NetDragon is making a priority. According to the "2014 China Statistical Yearbook" of the National Bureau of Statistics, the student population in the K-12 education stage reached approximately 180 million in 2014 and has created a foundation for robust growth.

Hardware forms the basis for online education. Electronic whiteboards are already widely used in the United States and parts of Europe. Despite its current low penetration rate in China, interactive tablets present promising growth prospects. Having created the infrastructure and administrative systems needed for nationwide education, China has begun creating a comprehensive educational solution with education informatization. The penetration rate of student access to ICTs has grown rapidly, while class access to ICTs is gradually developing. After more than 10 years of development, in-class hardware has entered the era of one-to-one tablets.

Aside from hardware, the classroom Internet ecosystem consisting of "Hardware – Platform - Content" has gradually emerged. A platform has been created that comprises of an O2O educational solution and ecosystem connecting teaching, content and resource management with big data analytics. Educational content such as high quality school textbooks and testing materials form an important of an effective internet classroom. Currently, China's domestic online education market is highly fragmented with most of the leading online education companies focusing on a single market segment. NetDragon has positioned itself in all three segments of "Hardware - Platform - Content" to provide a unique integrated solution.

With the continued promotion of China's "Internet+" policy, the online education market will experience a period of sustained and rapid development as it gradually migrates towards mobile devices. With innovative technology such as big data, artificial intelligence, voice recognition, and development of wearable devices and VR, teaching techniques and learning opportunities will expand. As an internet pioneer, NetDragon will explore market opportunities across the internet space while maintaining its focus on the online education sector.

Endnotes

1. China Audio-video and Digital Publishing Association, CNG and IDC, 2015 China Gaming Industry Report (Abstract), (Beijing, China Book Press, December 2015), pp. 1,2;

2. GPC and CNG, "Report: Chinese Mobile E-Sports Trends in 2015", http://cdn.cgigc.com.cn/report/2015/report_2015_mobile_game.pdf, pp. 6,10;

3. www.iresearch.com, "2015-2016 China Mobile Education Report (Brief Edition)", pp.7;

4. China Internet Network Information Center (CNNIC), "The 37th Statistical Report on Internet Development in China", January 2016, https://cnnic.cn/gywm/xwzx/rdxw/2015/201601/W020160122639198410766.pdf, pp.3;

5. www.iresearch.com, "Report: Online Education Platforms in China in 2015", pp.16;

(2) OPERATION INFORMATION

The following table sets out the breakdown of peak concurrent users (the "PCU") and average concurrent users (the "ACU") for our online games for periods indicated below *(Note)*:

	Three months ended				
	31 December 2015	30 September 2015	30 June 2015	31 March 2015	31 December 2014
PCU	**752,000**	761,000	708,000	703,000	642,000
ACU	**317,000**	360,000	318,000	309,000	301,000

Note: As at 31 December 2015, our online games include Conquer Online, Eudemons Online, Calibur of Spirit, Zero Online, Tou Ming Zhuang Online, Way of the Five, Tian Yuan, Disney Fantasy Online and other games.

The PCU for online games was approximately 752,000 for the three months ended 31 December 2015, representing a decrease of approximately 1.2% from the three months ended 30 September 2015 and representing an increase of approximately 17.1% from the three months ended 31 December 2014.

We also recorded the ACU for online games of approximately 317,000 for the three months ended 31 December 2015, which represented a decrease of approximately 11.9% from the three months ended 30 September 2015 and represented an increase of approximately 5.3% from the three months ended 31 December 2014.

(3) KEY FINANCIAL HIGHLIGHTS

Key Fiscal Year 2015 Financial Highlights

- Revenue was RMB1,272.2 million, an increase of 32.1% year-over-year.
- Revenue from games business was RMB985.4 million, an increase of 11.5% year-over-year.
- Revenue from education business was RMB242.8 million, an increase of 639.4% year-over-year.
- Gross profit was RMB958.0 million, an increase of 11.4% from last year.
- Segmental profit from games business was RMB357.0 million, an increase of 17.7% year-over-year.
- Non-GAAP operating loss was RMB22.5 million.
- Net cash, cash equivalent and liquid investments as at 31 December 2015 was RMB1,880.7 million.
- Adjusted non-GAAP operating profit, which excludes one-off tax charges and expenses related to the Promethean acquisition, was RMB0.6 million.
- Non-GAAP loss per share was RMB24.86 cents.

Key Fourth Quarter 2015 Financial Highlights

- Revenue was RMB500.6 million, an increase of 93.0% quarter-over-quarter and 77.0% year-over-year.
- Revenue from games business was RMB283.2 million, an increase of 18.5% quarter-over-quarter and 18.6% year-over-year.
- Revenue from education business was RMB209.8 million, a significant increase both on a quarter-over-quarter and year-over-year basis due to the acquisition of Promethean that is consolidated commencing in November.
- Gross profit was RMB312.4 million, an increase of 45.0% quarter-over-quarter and 26.7% year-over-year.
- Segmental profit from games business was RMB187.3 million, an increase of 333.9% year-over-year.
- Non-GAAP operating loss was RMB8.2 million.
- Adjusted non-GAAP operating profit, which excludes one-off tax charges and expenses related to the Promethean acquisition, was RMB1.2 million.
- Non-GAAP loss per share was RMB17.9 cents.

(4) FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2015

The following table sets forth the comparative figures for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue	**1,272,197**	962,817
Cost of revenue	**(314,161)**	(102,844)
Gross profit	**958,036**	859,973
Other income and gains	**187,927**	157,101
Selling and marketing expenses	**(206,778)**	(152,495)
Administrative expenses	**(520,104)**	(326,934)
Development costs	**(446,229)**	(249,260)
Other expenses	**(24,092)**	(34,027)
Share of losses of associates	**(9,912)**	(2,354)
Operating (loss) profit	**(61,152)**	252,004
Interest income on pledged bank deposits	**6,018**	2,794
Exchange loss on pledged bank deposits, secured bank borrowings and convertible preferred shares	**(15,504)**	(5,081)
Net (loss) gain on derivative financial instruments	**(2,914)**	6,817
Net gain on disposal of held-for-trading investments	**876**	–
Net loss on held-for-trading investments	**(9,144)**	(17,304)
Finance costs	**(5,431)**	(3,212)
(Loss) profit before taxation	**(87,251)**	236,018
Taxation	**(100,675)**	(64,197)
(Loss) profit for the year	**(187,926)**	171,821
(Loss) profit for the year attributable to:		
– Owners of the Company	**(142,979)**	176,681
– Non-controlling interests	**(44,947)**	(4,860)
	(187,926)	171,821
Non-GAAP (loss) profit for the year	**(123,204)**	220,514
Non-GAAP operating (loss) profit for the year	**(22,529)**	284,711
Adjusted Non-GAAP operating profit for the year	**607**	284,711

The following table sets forth the comparative figures for the fourth quarter of 2015, the third quarter of 2015 and the fourth quarter of 2014:

	Three months ended		
	31 December 2015 (Unaudited) RMB'000	30 September 2015 (Unaudited) RMB'000	31 December 2014 (Unaudited) RMB'000
Revenue	**500,560**	259,412	282,880
Cost of revenue	**(188,159)**	(44,031)	(36,342)
Gross profit	**312,401**	215,381	246,538
Other income and gains	**87,443**	43,951	32,464
Selling and marketing expenses	**(93,982)**	(42,663)	(51,206)
Administrative expenses	**(161,490)**	(133,516)	(120,876)
Development costs	**(154,726)**	(107,472)	(89,278)
Other expenses	**(12,080)**	(3,270)	(11,977)
Share of losses of associates	**(1,423)**	(3,177)	(1,715)
Operating (loss) profit	**(23,857)**	(30,766)	3,950
Interest income on pledged bank deposit	**1,171**	1,657	475
Exchange loss on pledged bank deposit, secured bank borrowing and convertible preferred shares	**(5,623)**	(10,527)	–
Net (loss) gain on derivative financial instruments	**(16,322)**	13,408	–
Net loss on disposal of held-for-trading investment	**–**	(525)	–
Net gain (loss) on held-for-trading investments	**3,922**	(2,334)	(16,905)
Finance costs	**(2,940)**	(851)	(235)
Loss before taxation	**(43,649)**	(29,938)	(12,715)
Taxation	**(80,609)**	(8,072)	(9,442)
Loss for the period	**(124,258)**	(38,010)	(22,157)
Loss for the period attributable to:			
– Owners of the Company	**(98,075)**	(26,530)	(19,406)
– Non-controlling interests	**(26,183)**	(11,480)	(2,751)
	(124,258)	(38,010)	(22,157)

	FY2015		FY2014		Variance	
	Online Games RMB'000	**Education RMB'000**	Online Games RMB'000	Education RMB'000	Online Games (%)	Education (%)
Revenue	**985,427**	**242,801**	883,483	32,838	11.5%	639.4%
Gross profit	**899,758**	**58,933**	815,459	3,400	10.3%	1,633.3%
Segmental profit (loss)	**357,046**	**(274,100)**	303,338	(40,370)	17.7%	579.0%
Key operating expenses:						
– Development costs	**(293,663)**	**(148,447)**	(236,084)	(13,176)	24.4%	1,026.6%
– Selling and marketing expenses	**(135,034)**	**(71,597)**	(143,024)	(9,339)	-5.6%	666.6%
– Administrative expenses	**(379,129)**	**(102,517)**	(281,607)	(21,643)	34.6%	373.7%

	FY2015Q4		FY2014Q4		Variance	
	Online Games RMB'000	**Education RMB'000**	Online Games RMB'000	Education RMB'000	Online Games (%)	Education (%)
Revenue	**283,245**	**209,826**	238,855	9,458	18.6%	2,118.5%
Gross profit	**264,162**	**49,474**	215,654	211	22.5%	23,347.4%
Segmental profit (loss)	**187,344**	**(159,947)**	43,177	(25,000)	333.9%	539.8%
Key operating expenses:						
– Development costs	**(76,341)**	**(74,266)**	(80,805)	(8,473)	-5.5%	776.5%
– Selling and marketing expenses	**(36,072)**	**(57,776)**	(46,200)	(4,926)	-21.9%	1,072.9%
– Administrative expenses	**(103,281)**	**(47,778)**	(95,842)	(7,819)	7.8%	511.1%

REVENUE

Revenue for the year ended 31 December 2015 was approximately RMB1,272.2 million, representing an increase of approximately 32.1% as compared to approximately RMB962.8 million for the year ended 31 December 2014. For the fourth quarter of 2015, revenue was approximately RMB500.6 million, representing an increase of approximately 93.0% from the third quarter of 2015 and an increase of approximately 77.0% over the same period in 2014.

The increase in revenue was due to a combination of (i) healthy revenue increase of online game business driven by the success of multiple games; (ii) commencement of pilot sales of the Group's education products in China in the third quarter; and (iii) consolidation of the results of Promethean Group starting in November 2015.

Online game

Our online game revenue for the year ended 31 December 2015 was approximately RMB985.4 million, representing an increase of approximately 11.5% as compared to approximately RMB883.5 million for the year ended 31 December 2014.

The following table sets out the breakdown of geographical online game revenue of the Group for periods indicated below:

	Year ended 31 December			
	2015		2014	
	RMB'000	**% of online game revenue**	RMB'000	% of online game revenue
PRC	**853,853**	**86.6**	773,369	87.5
Other markets	**131,574**	**13.4**	110,114	12.5
	985,427	**100.0**	883,483	100.0

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The online game revenue derived from the PRC for the year ended 31 December 2015 was approximately RMB853.8 million, representing an increase of approximately 10.4% over the year ended 31 December 2014. The revenue growth is primarily attributable to a combination of a significant revenue ramp-up for new MOBA game Calibur of Spirit, and healthy growth for Eudemons Online and Pocket versions.

The online game revenue derived from other markets for the year ended 31 December 2015 was approximately RMB131.6 million, representing an increase of approximately 19.5% over the year ended 31 December 2014. The growth was due in particular to the success of Conquer Online overseas version which experienced a fruitful year, in which continuous improvement in game features and monetisation strategy helped drove monthly revenue of its overseas version to a record high in July 2015.

Education business

The education business revenue for the year ended 31 December 2015 was approximately RMB242.8 million, representing an increase of approximately 639.4% as compared to approximately RMB32.8 million for the year ended 31 December 2014.

The following table sets out the breakdown of geographical education business revenue of the Group for the periods indicated below:

	Year ended 31 December			
	2015		2014	
	RMB'000	**% of education business revenue**	RMB'000	% of education business revenue
PRC	**83,922**	**34.6**	32,838	100.0
Other markets	**158,879**	**65.4**	—	—
	242,801	**100.0**	32,838	100.0

The education business revenue derived from the PRC for the year ended 31 December 2015 was approximately RMB83.9 million, representing an increase of approximately 155.6% over the year ended 31 December 2014. The increase was primarily attributable to successful commencement of pilot sales of the Group's new online education products in the third quarter of 2015.

The education business revenue derived from other markets for the year ended 31 December 2015 was approximately RMB158.9 million, representing the revenue of Promethean Group consolidated into the Group's results commencing in November 2015.

GROSS PROFIT

Gross profit for the year ended 31 December 2015 was approximately RMB958.0 million, representing an increase of approximately 11.4% as compared to approximately RMB860.0 million the for the year ended 31 December 2014. For the fourth quarter of 2015, gross profit was approximately RMB312.4 million, representing an increase of approximately 45.0% from the third quarter of 2015 and an increase of approximately 26.7% over the same period in 2014.

Online game

Our online game gross profit for the year ended 31 December 2015 was approximately RMB899.8 million, representing an increase of approximately 10.3% as compared to approximately RMB815.5 million for the year ended 31 December 2014. The increase was consistent with increase in online game revenue.

Education business

The education business gross profit for the year ended 31 December 2015 was approximately RMB58.9 million, representing an increase of approximately 1,633.3% as compared to approximately RMB3.4 million for the year ended 31 December 2014. The increase was mainly contributed from (i) the gross profit of the Promethean Group, amounting to RMB40.9 million, which is consolidated after completion of acquisition in November 2015; and (ii) gross profit from pilot sales of education products in China.

DEVELOPMENT COSTS

Development costs for the year ended 31 December 2015 were approximately RMB446.2 million, representing an increase of approximately 79.0% as compared to approximately RMB249.3 million for the year ended 31 December 2014. For the fourth quarter of 2015, development costs were approximately RMB154.7 million, representing an increase of approximately 44.0% from the third quarter of 2015 and an increase of approximately 73.3% over the same period in 2014.

Online game

Our online game development costs for the year ended 31 December 2015 were approximately RMB293.7 million, representing an increase of approximately 24.4% compared to approximately RMB236.1 million for the year ended 31 December 2014. The increase was mainly contributed from the increase in staff costs as the Group continued to invest in enhancing research and development capabilities in gaming.

Education business

The education business development costs for the year ended 31 December 2015 were approximately RMB148.4 million, representing an increase of approximately 1,026.6% compared to approximately RMB13.2 million for the year ended 31 December 2014. The increase was mainly contributed from the significant increase in research and development staffs as the Group continued to invest heavily in the development of its education products.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the year ended 31 December 2015 were approximately RMB206.8 million, representing an increase of approximately 35.6% as compared to approximately RMB152.5 million for the year ended 31 December 2014. For the fourth quarter of 2015, selling and marketing expenses were approximately RMB94.0 million, representing an increase of approximately 120.3% from the third quarter of 2015 and an increase of approximately 83.5% over the same period in 2014.

Online game

Our online game selling and marketing expenses for the year ended 31 December 2015 were approximately RMB135.0 million, representing a decrease of approximately 5.6% compared to approximately RMB143.0 million for the year ended 31 December 2014. For the quarter ended 31 December 2015, the expenses decreased by approximately 21.9% over the same period in 2014. The year-over-year and quarter-over-quarter decrease was mainly due to significant advertising spending in the fourth quarter of 2014 in tandem with the launch of Eudemons Online Pocket Version.

Education business

The education business selling and marketing expenses for the year ended 31 December 2015 were approximately RMB71.6 million, representing an increase of approximately 666.6% compared to approximately RMB9.3 million for the year ended 31 December 2014. The increase was mainly contributed from the expansion of the sales and marketing team in China and increase in product promotional effort in line with the establishment of a nationwide sales and distribution network during the year and the launch of the pilot sales in the third quarter of 2015. In addition, the 2015 expense figure includes selling and marketing expenses of the Promethean Group, amounted to RMB43.7 million, which were consolidated after the completion of the acquisition in November.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2015 were approximately RMB520.1 million, representing an increase of approximately 59.1% as compared to approximately RMB326.9 million the for the year ended 31 December 2014. For the fourth quarter of 2015, administrative expenses were approximately RMB161.5 million, representing an increase of approximately 21.0% from the third quarter of 2015 and an increase of approximately 33.6% over the same period in 2014.

Online game

Our online game administrative expenses for the year ended 31 December 2015 were approximately RMB379.1 million, representing an increase of approximately 34.6% compared to approximately RMB281.6 million for the year ended 31 December 2014. The increase was mainly contributed from (i) related to acquisitions, and (ii) increase in depreciation expense related to the Group's new headquarters campus in Changle.

Education business

The education business administrative expenses for the year ended 31 December 2015 were approximately RMB102.5 million, representing an increase of approximately 373.7% compared to approximately RMB21.6 million for the year ended 31 December 2014. The increase was mainly contributed from the increase in (i) staff costs; (ii) legal and professional fees (due primarily to the acquisition of Promethean); (iii) amortisation expense of intangibles related to the acquisition of 蘇州馳聲信息 and Promethean Group, and (iv) office rental expense related to setting up the new Beijing office. In addition, the 2015 expense figure includes administrative expenses of the Promethean Group, amounted to RMB28.8 million, which were consolidated after the completion of the acquisition in November.

TAXATION

Taxation for the three months ended 31 December 2015 raised by approximately 753.7% to approximately RMB80.6 million as compared with the three months ended 31 December 2014, which was due to additional provision of the PRC income tax arising from the disposal of 91 Group. For the same reason, taxation for the year ended 31 December 2015 increased by approximately 56.8% to RMB100.7 million over the year of 2014.

(5) NON-GAAP FINANCIAL MEASURES

To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. These non-GAAP measures are not expressly permitted measures under HKFRSs and may not be comparable to similarly titled measures for other companies. The non-GAAP financial measures of the Group exclude share-based payments expense, loss on deemed disposal of associates, amortisation of intangible assets arising on acquisition of subsidiaries, interest income on pledged bank deposits, exchange loss on pledged bank deposits, secured bank borrowings and convertible preferred shares, net (loss) gain on derivative financial instruments, net gain (loss) on disposal of held-for-trading investments, net (loss) gain on held-for-trading investments and finance costs.

The non-GAAP measures of the Group are presented as follows:

	Year ended		**Three months ended**		
	31 December 2015 RMB'000	31 December 2014 RMB'000	**31 December 2015 RMB'000**	30 September 2015 RMB'000	31 December 2014 RMB'000
Non-GAAP operating (loss) profit	**(22,529)**	284,711	**(8,171)**	(23,526)	13,540
Non-GAAP (loss) profit	**(123,204)**	220,514	**(88,780)**	(31,598)	4,098
Non-GAAP (loss) profit attributable to owners of the Company	**(83,012)**	225,374	**(67,903)**	(19,723)	6,849

(6) BUSINESS REVIEW AND PROSPECTS

2015 was a rewarding year with the Group's online games business generating robust growth and online education sales in China gaining traction following the launch of an initial large-scale pilot sales program which began in the third quarter of 2015. Completing the acquisition of Promethean World Limited ("Promethean") in November 2015 also marked the beginning of the Group's global expansion in the education space.

During the year under review, the Group continued to invest heavily in the design and development of its online education products, and have made remarkable progress in building an integrated ecosystem which management team strongly believe will be a game changer. The Group also extended its education product portfolio into Virtual Reality ("VR"). Its VR product will include a state-of-the-art editor tool for teachers and students to create VR lessons and presentations with and a library of best-in-class educational VR content in terms of quality and breadth of coverage. Most importantly, the Group expects its knowhow and technologies accumulated from the games business, as well as its resources and focus in education, will enable its development team to develop VR education products better and faster than its competitors.

The Group is seeing extremely positive progress from the launch of its initial pilot sales program during the third quarter of 2015. The sales tenders won as of end of 2015 will cover over 5,000 classrooms in 400 schools across 14 provinces (or directly-controlled municipalities) in China. In addition, the Group expects its VR product to hit the market during the second half of 2016 which will serve as a catalyst for the growth of education sales. Last but not least, the completion of the acquisition of Promethean will accelerate the Group's global strategy by providing an existing user base covering 1.3 million classrooms in over 150 countries and over 2 million teachers and 30 million students.

The Group's games business also had a successful year, as its new game Calibur of Spirit (英魂之刃) continued its very strong momentum in the fourth quarter of 2015, and this game is poised to become a major revenue and profits growth driver for the Group's games business. The Group's overseas games also recorded strong growth during the year under review, increasing over 20% from the prior year. Looking forward, the Group anticipates a very exciting year in which the management team plans to launch new mobile game versions for Calibur of Spirit (英魂之刃) and Eudemons Online (魔域), and leverage its technology and expertise to diversify into MOBA community platforms.

Games Business

During fiscal year 2015, revenue from the games business increased 11.5% to RMB985.4 million. During the fourth quarter of 2015, revenue from the games business increased 18.5% sequentially and 18.6% year-over-year to RMB283.2 million. The increases were primarily attributable to significant revenue generation from the Group's new MOBA game Calibur of Spirit (英魂之刃), and healthy growth from Eudemons Online (魔域) and Eudemons Online Pocket version* (魔域口袋版).

* *For identification purpose only*

During the fourth quarter of 2015, the Group continued to enhance game-play and optimize the monetization of Calibur of Spirit (英魂之刃) resulting in monthly gross revenue reaching a record high of RMB 31.6 million in December 2015. Given the strong growth momentum, the Group expects to see Calibur of Spirit (英魂之刃) generate sustained revenue growth in 2016. The Group will leverage the success of Calibur of Spirit (英魂之刃) to promote professional e-sports events which will accelerate player acquisition and create a vibrant community for MOBA players. The Group is developing a mobile version of Calibur of Spirit (英魂之刃) which will begin open beta testing in 2016 and is confident of its potential success given the game's existing large online player base.

Eudemons Online (魔域) closed out a solid year with a successful fourth quarter that saw its PC and mobile game titles generate a combined revenue increase of 25.8% sequentially. The increase in revenue was driven by the release of a new PC expansion pack in October 2015 and healthy growth from its mobile game which recorded its third consecutive month of revenue growth during the fourth quarter of 2015. The Group will continue to launch content updates and leverage the popularity of its brand to launch new mobile game titles for Eudemons Online (魔域) in 2016.

The Group's other flagship game, Conquer Online (征服), also experienced a fruitful year in which the continuous improvement in game features and monetization strategy helped drive monthly revenue from its overseas version to a record high in July 2015.

Tiger Knight (虎豹騎), the Group's 3D action strategy game, is currently undergoing testing which began in August 2015. A Player Versus Environment (PVE) game update was released in the fourth quarter of 2015 to great acclaim from players. This game was recognized as one of the "Top 10 Most Anticipated Client Games" in Tencent's "2015 Chinese Game Ranking".

Going forward, the Group will continue to launch new games and use existing IP to develop spinoff franchises as part of its premier-quality games strategy.

Online Education Business

Fiscal year 2015 was a year of remarkable progress on all fronts for the Group's online education business. The Group finished developing a pilot version of its online education ecosystem which includes software components covering pre-class lesson preparation, in-class collaborative lessons, an after-school homework system, as well as a customizable instant messaging platform that is designed specifically for education communities. These software components can be seamlessly integrated into the Group's proprietary Android-based 101 Student Tablet to provide a best-in-class user experience as well as teaching and learning efficacies for teachers and students. During the fourth quarter of 2015, the Group began developing its educational VR product portfolio which will form an integral part of its education ecosystem and will feature a VR editor platform that will empower teachers and students by allowing them to create highly personalized VR presentations in a do-it-yourself fashion. The Group will also leverage its world class gaming content production experience to produce a state-of-the-art educational VR content library which will provide a learning experience that is both immersive and engaging across a broad array of subject areas. In addition to VR content, the Group is on track to build the largest interactive and 3D learning content library in China that will cover all major subject areas across the standard primary and secondary school curriculum with a breakdown into granular knowledge points. The content library will feature teaching and learning modules, question banks and interactive lessons, which are designed to enable the creation of next-generation lesson plans designed to maximize both engagement and effectiveness of an individual students' learning.

In November 2015, the Group completed the acquisition of a 100% stake in Promethean for a total cash consideration of approximately USD130 million. Starting in November 2015, Promethean's results have been consolidated into the Group's financials. Promethean provides the Group with a well-known international brand in education, access to global sales and marketing partnership channels and opportunities to create technological and operational synergies which will accelerate the global rollout of its products. The Group is pursuing several integration initiatives which are expected to result in significant revenue growth in 2016 and multi-fold increase in the user base of its award winning ClassFlow™ educational software.

The Group began the go-to-market roll-out of its education products in China during the third quarter of 2015 with a highly successful pilot launch. As of the end of 2015, sales contracts secured already cover over 5,000 classrooms in 400 schools across 14 provinces (or direct-controlled municipalities). As the Group transitions from the current pilot launch to a full commercial launch in 2016, revenue from its China education business is expected to increase by several multiples from its 2015 levels.

Project in Haixi Animation Creativity City (the "Project")

The "Haixi Animation Creativity City" is a project initiated by Changle Western Taiwan Straits Creative Valley (長樂海西創意谷) and the Group is responsible for its construction and planning. It is a key project in Fujian, and also a significant project for the cultural creativity industry of Fuzhou City in the Linkonggang Economic Zone. The Project involves all parts of the industrial chain of animation creativity, covering research and development of animation, exchange, animation derivatives and online and mobile education application. During the year under review, the progress of four phases of the Project was as follows:

I Phase I covers an area of 246.8 mu. It is used for the Group's research and development, exchange and quality control. Currently, several main buildings have been constructed, including the Group's office building and Pentagonal Building* (五角大樓), with a gross floor area of approximately 33,000 square meters. These buildings have been put into operation for our employees. The construction of two new dormitory buildings of Phase I was basically completed and the interior decoration is currently underway.

II Phase II covers an area of 296.5 mu and is the main animation research and development center of the Group. After two years of construction, the main building of the Group's landmark building, Enterprise* (企業號), was officially put into operation on 18 May 2014.

* *For identification purpose only*

III Phase III covers an area of approximately 600.1 mu. of which, 345 mu have been earmarked for online education industrial zone, 105 mu have been slated for commercial and residential use and 48.8 mu were designated for dormitory for senior management. The construction of the dormitory buildings for senior management was basically completed and the establishment of fire sprinkler system and ventilation ducts are currently underway. The remaining 101.3 mu will be used for future mobile game business research and development purpose. The fences and scaffolding around such land with an area of 101.3 mu were constructed and the site preparation work is currently underway.

The project land for the commercial and residential zone of Haixi Animation Creativity City with an area of 105 mu has been acquired for commercial and residential use of Changle Western Taiwan Straits Creative Valley. Completed residential units will only be sold to employees of the zone. The land supply procedures are in process.

IV The Group also places great emphasis on the development of education segment and intends to construct a new Changle campus for Fuzhou Software Technology Vocational College. Fuzhou Software Technology Vocational College occupies an area of 536.2 mu and will enroll approximately 8,000 students. The planning and design of the construction have been completed and the approval of land use has been obtained. Upon the commencement of its operation, the college will form an industry cluster with other three projects in the zone. The Group aims to expand and develop the creative animation in Haixi through providing practical education, encouraging research with production and collaborating education and production.

V Another property project occupying an area of 199.0 mu, which is allocated for commercial and residential use. The project commenced in 2014. The fences and scaffolding around the site were constructed and the site preparation work was preliminarily completed. The planning and design of the construction is currently underway.

The Project will establish a high-tech industry cluster of research and development of technology, application and production, covering the whole industrial chain of animation industry. The Project aims to become a new town with the most advanced technologies, the most ecology-friendly and most creative production base with the greatest potential and a creative cultural center in southeast coast in China.

Corporate Milestones and Awards in 2015

Year 2015	Corporate Milestones/Recognitions
April	• Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") was honoured as one of the "Taxation - 2014 Top 100 Fujian Provincial Private Enterprises" (「福建省2014年度民營企業納稅百強」) jointly organised by Fujian Provincial State Tax Bureau (福建省國家稅務局) and Fujian Local Tax Bureau (福建省地方稅務局)
May	• NetDragon (Fujian) was honoured as one of the "Top 30 Cultural Enterprises in the PRC at the Seventh Presentation Ceremony"* (「第七屆文化企業三十強」) jointly organised by the Guang Ming Daily (光明日報社) and Economic Daily (經濟日報社)
	• NetDragon (Fujian) was honoured as one of the "2014 Top 10 Cultural Enterprises in Fujian Province"(「2014年度福建省文化企業十強」) by the Fujian Cultural Reform and Development Work Leading Group (福建省文化改革發展工作領導小組)
December	• NetDragon (Fujian) was honoured as "2012-2014 Trustworthy Enterprise of the Communications Industry in Fujian Province" (「2012-2014年度福建省通信業誠信企業」) by Fujian Communications Administration (福建省通信管理局), the Association Redound Reposal of Fujian (福建省誠信促進會) and Fujian Communication Industry Association (福建省通信行業協會)

(7) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2015, we had bank deposits and bank balances and cash of approximately RMB1,710.0 million (31 December 2014: RMB3,273.2 million, out of which approximately RMB236.8 million had been pledged to bank to secure bank borrowing).

As at 31 December 2015, the Group had net current assets of approximately RMB1,352.4 million as compared with approximately RMB3,148.0 million as at 31 December 2014.

(8) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.01 (31 December 2014: 0.05). As at 31 December 2015, total bank borrowings of the Group amounted to approximately RMB25.1 million (31 December 2014: RMB236.8 million) was floating-rate loan and was secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

* *For identification purpose only*

(9) CAPITAL STRUCTURE

As at 31 December 2015, the Group's total equity amounted to approximately RMB4,303.6 million (2014: RMB4,617.4 million).

(10) FOREIGN CURRENCY RISK

The Group operates mainly in the PRC, the United States of America ("USA") and the United Kingdom ("UK"). Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB, USD and GBP. However, the Group also has business operations in Hong Kong and Europe and the business transactions conducted there during the year were mainly denominated and settled in HKD and EUR respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner. In this respect, our Directors consider there is no significant foreign currency mismatch in our operational cash flows and we are not exposed to any significant foreign currency exchange risk in our operation.

(11) CREDIT RISK

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings and there is no significant concentration of credit risk.

The Group has no significant concentration of credit risk on trade and other receivables with exposure spreading over a number of counterparties and customers.

(12) LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's financial liabilities (including trade and other payables, amount due to a related company, amounts due to associates, secured bank borrowings and convertible preferred shares) will be settled within 12 months after the reporting period. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

CORPORATE CULTURE

Innovation

Innovation is the driving force behind the success of the Group. We embrace changes, continuously explore and attempt new and more effective concepts and methods, in order to launch new technologies and new products.

Customer comes first

Customer comes first is our philosophy in product design and services. Group staff have an acute judgment on market and customers. Through technology and services, customer requirements are satisfied and steered quickly, and through continuous improvements in customer experience, we can create value for customers and acquire competitive advantages. Each staff also adheres to the concept even when providing services to our internal customers.

Learning

Learning is a habit of every staff in the Group. We always have curiosity and the urge to learn. We will proactively invest time and effort in learning, apply the skills we have learnt and expand our capabilities. We are good at self-examination and draw conclusions from happenings around us, and are willing to share and exchange ideas with others to promote mutual teaching and learning.

Pursuit of excellence

Pursuit of excellence is a working standard for our staff. We aim for high aspirations and excellence, self-challenge and surpassed expectations. We plan several steps ahead, striving to provide customers with the highest quality products and services, and constantly challenge our own potentials while doing our best.

Passion

We are passionate about work and collaboration with colleagues. We consider our work as a career and contribute our full efforts. We enjoy the satisfaction from work, we are optimistic and positive, and are able to disseminate such positive energy in the daily interactions with colleagues, together with mutual trust, support and encouragement.

Fairness

Fairness is the working atmosphere we promote. The Group strives to create a working atmosphere with fair allocation, fair procedures, public information and mutual respect. Through a public process and open supervision, the Group ensures that results are fair and hopes that all employees can treat everything and everyone objectively and equally.

Aggressiveness

We are featured by aggressiveness. We like to distinguish ourselves by mastering opportunities, expressing opinions and ideas, being responsible for or participating in the projects which arouse our interest, gaining resources and support to win market opportunities and honestly communicating with others on development requirement. We believe that if everyone volunteers to put up their hands, internal impetus and team power will be inspired to expand our business.

STAFF RELATIONSHIP AND WELFARE

HUMAN RESOURCES

The Group had its overall staff headcount of 4,570 as at 31 December 2015. During the year under review, the Group has achieved significant improvement in human resources management and received the "National Outstanding Human Resources Management Award"* (「全國人力資源管理傑出獎」) and "National Highest Potential Employer Award"* (「全國最具潛力僱主獎」).

I. The year 2015 marked the year of rapid development of the Group after strategic transformation. The Group made simultaneous efforts in areas, such as games, education and new business, by recruiting outstanding talents that fulfill the requirements for the development of the Group. Over the year, the Group recruited 1,590 persons, representing a 26% growth compared with 2014. Education staff accounted for over 70% of new recruits, providing a strong basis for the planning and development of the education business of the Group. During the same year, the Group also organised Campus Recruitment Talks at 17 key universities well-known throughout the country. As a result, the recruitment rate of employees with qualification from key universities increased to 128% as compared to the previous year.

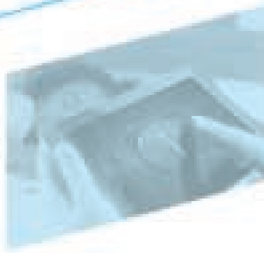
II. Extensive efforts were made to improve the staff performance in order to better support the upgrade of products. Based on the business value chain of the Group, the level of 11 positions were clearly defined while the level, main duties and employment qualification of the research and development positions were refined. As such, the staff could be more independent and have a clearer career path. Furthermore, the managers of functional departments were able to systematically manage their own departments and develop a solid base for training future managers of the Group.

III. Stringent appraisal for its projects was carried out. The duties and authority of the project management team and the management of each department were specified. By improving the existing performance appraisal method, execution efficiency was enhanced. The Group also tightened the requirements for the management positions. Efficiency of the management was enhanced through a range of tools, including reasonable timetables, effective management methods and PDCA (Plan, Do, Check, Action). The Group also improved and optimised the existing works to enhance its organisation and performance.

IV. The continuous improvement of the existing remuneration and welfare of the Group enhanced its competitiveness in the market. This provided strong support to the Group for soliciting and retaining talents. Additional measures were adopted to provide the Group support in motivating talents for pursuing excellence.

* *For identification purpose only*

STAFF RELATIONSHIP AND WELFARE



TRAINING AND TRAINING SYSTEM

Staff Training

NetDragon University is a base for nurturing management and technological talents of the Group. As a powerful support and an important part of the overall strategy of the Group, NetDragon University is committed to providing professional and systematic training services to the staff of the Group. Through effective organisation and learning, technological and management talents of high standards will be trained to contribute to the continuous enhancement of core competitiveness of the Group.

Achievements of 2015

In line with the transition of the Company into a design-oriented company and the initiatives to optimize its business through training courses, offline workshops and certifications, the Company launched the 99 Design Salon (99設計沙龍) and 99 Great Sharing Platform (99大享台). These two campaigns aimed to develop a design atmosphere within the Company while identifying skilled designers and bringing more creative ideas to the design centre. A new O2O management training approach was introduced through a combination ofonline and offline training programmes. The original management training, technological training and business development training were also enhanced. In addition, specific training systems for different positions were developed.

In 2015, a total of 225 sessions of training programmes and online and offline workshops were organised for all the staff of the Company. Approximately 45 sessions of certifications were held with nearly 6,500 participants in total. Eight sessions of the 99 Design Salon (99設計沙龍) were held, creating over 20 design value points with a total of approximately 200 participants.

As to "Certification"

In 2015, the Group continued to proceed with the certifications, namely safety technology certification and design theory certification. During the year under review, eight sessions of the safety technology certification were held. During the year, the design theory primary certification was conducted with a total of 795 participants over the year.

New company certifications: GDA2.0 certification (Game Design and Development Certification) and NDPMP certification (NetDragon Project Management Certification) projects. Six sessions were held since the commencement of the GDA2.0 certification project with a total of approximately 130 participants while three sessions of NDPMP certification were held with a total of approximately 150 participants.

As to "Training Courses"

Management course: The Qianlong O2O Project was successfully completed in 2015. The is a training project with new syllabus, learning materials and mode of teaching specially prepared and designed for base level management. The passing rate of the certification was 100%.

The project comprises seven learning modules, including goal setting and planning, mission allocation, employee counselling, cross-team cooperation and communication, time/meeting management, performance evaluation and feedback, and role perception. The development and operation of courses involve: five learning methods including mini courses, formulation of online examination papers, planning of online discussion, design of minor tasks and design of offline education plans.

99 Design Salons (99設計沙龍): 99 Design Salon Project is an online reward channel aiming to attract quality creative ideas by forming creative team offline to cooperate with the relevant department and participate in trainings of various themes in the form of "world coffee" tactics, brain storming or team building to produce valuable and smart design for products. The 99 Design Salon Project (99設計沙龍專案) was completed as scheduled and was awarded with the prize of company management innovation. Eight sessions of the salon were held throughout the year. The training attracted a total of 193 participants from the Company and 7,248 online viewers, which created a favorable design atmosphere and promoted its design theory. Other initiatives launched under this project included the guidelines and organisation procedures of the 99 Design Salon (99設計沙龍), worksheet tools and video clips.

99 Great Sharing Platform (99大享台): 99 Great Sharing Platform is an internal exchange learning platform through the sharing of internal/external (we obtain the information of famous expert teachers in the industry through various channels to invite them to share and teach) professional information and research findings to promote products of NetDragon in the industry and enhance product competitiveness. Ten sessions of 99 Great Sharing Platform (99大享台)/Design And Thinking Month (設計思維月) were held during the year, namely seven education sessions and three design sessions with an overall satisfaction level of 4.65 (out of 5.00). Design And Thinking Month (設計思維月) with inspiring visual elements and atmosphere attracted a click-through rate (both online and offline) of 1,882 times.

As to "Development of a know-how system"

As a design-oriented company, NetDragon helps staff gain a better understanding of their positions and relevant duty requirements through NetDragon University by organising a know-how learning system for major and knowledge-based positions including design (such as software development staff) and project management positions, and has made the following achievements:

In September 2015, Software Planning (P4) (《軟體策劃 (P4) 》), a certification programme for learning operating know-how of different positions was released;

In November 2015, NDPMP Project Management (《NDPMP項目管理》), a certification programme for learning operation know-how of different positions was released. A total of 108 participants completed the certification programme in three sessions;

In December 2015, QA Mobile Software Test (《QA手機軟體測試》), a certification programme for learning operation know-how of different positions was released. A total of 42 participants completed the first session of the certification programme. At the same time, Python Software (《Python軟件》), a certification programme for learning operation know-how of different positions was released and a total of 106 participants completed the first session of the examination.

WORKING ENVIRONMENT

The Group provides all its staff with a friendly and enjoyable working environment which is spacious and offers diversified staff facilities, including canteen, café, activities rooms, indoor and outdoor swimming pools, football pitch, basketball court, badminton court, tennis court, squash court and fitness centre. Such a pleasant working environment does not only improve the sense of belonging among its staff, but also helps enhance their working efficiency and creativity. The Group also organizes various staff activities such as the Carnival on 9 September 2015, 1/4 Marathon and New Year Gala.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Liu Dejian, aged 44, Chairman of the Board and Executive Director

Mr. Liu led us to become one of the PRC's leading online game and mobile Internet operations companies. He is mainly responsible for the overall business strategic development of the Group and is the chief game designer of our game development team. Mr. Liu leads the game development team on the design of the online game products. He formulates the development policy and contributes to the growth of the Company as a competitive online game operator and developer. Currently, Mr. Liu is committed to lead the company's transformation to an international design-oriented enterprises, and actively promote Internet education, leading the Group to become China's leading online education industry force. Apart from his management and leadership, Mr. Liu constantly holds training seminars to further enhance the development of our human resources. The Group was honoured as the "Top 30 Cultural Enterprises in the PRC at the Sixth Presentation Ceremony" (第六屆全國文化企業三十強) and "Top 2000 Forbes Global business" (福布斯全球企業兩千強) in May 2014. In 2015, the Group was honoured as the "Top 30 Cultural Enterprises in the PRC at the Seventh Presentation Ceremony" (第七屆全國文化企業三十強), "Second Award of Top 100 Forbes Potential Enterprises in PRC" (福布斯中國潛力企業百強榜第三名), "Top 100 Internet Enterprises in PRC" (中國互聯網企業百強) and "Top 100 National Software Comprehensive Competitiveness Enterprises" (全國軟體企業綜合競爭力百強). Prior to starting Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"), Mr. Liu graduated with a Bachelor's degree of Science in Chemistry from University of Kansas in the USA in 1995. He had been the vice-president of Beso Biological Research Centre, Inc ("Beso") from 1995 to 2005. He was also the vice-president of Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") from 1995 to 2000 and then promoted to be the president since 2001. Mr. Liu was first introduced to the technology of Internet during his study in the USA when he established a website for marketing of softwares. Anticipating that Internet would have a good development opportunity in the PRC, he founded NetDragon (Fujian) in 1999 when he came back to the PRC. He was awarded as the "Most Influential Person within the Online Game Industry in China in the Chinese Game Industry Annual Conference 2009" in January 2010 (「2009 年度中國遊戲產業最具影響力人物」). He was also awarded as "Excellent Entrepreneur of China Game Industry"* (「中國遊戲行業優秀企業家」) in the China Game Industry Annual Conference in December 2009. He was appointed as vice-chairman of Fujian Province Association of Youth Entrepreneur* (「福建省青年企業家協會」) in April 2006. He also obtained Fujian Youth Entrepreneur Achievement Award* (「福建青年創業成就獎」) in April 2005, Go Tone Fujian IT Industry Top 10 Outstanding Youth* (「全球通福建IT行業十大傑出青年」) in May 2005, Certificate of Fujian Entrepreneurial Tutor of the Chinese Youth Business International Programme* (「中國青年創業國際計劃福建創業導師證書」) in June 2005, Fujian Youth Technology Award* (「福建省青年科技獎」) in March 2010, Software Outstanding Talent in Fujian Province* (「福建省軟件傑出人才」) in September 2010 and Entrepreneurial Excellence Award in Haixi* (「海西創業英才獎」) in April 2012, and he was appointed as a member of the Second Council of The Association for Redound Reposal, Fujian (福建省誠信促進會第二屆理事會) in July 2012. Mr. Liu received the Management Talent Award* (「領軍人物獎」) in June 2011, Fujian business Building Haixi Outstanding Contribution Award* (「福建閩商建設海西突出貢獻獎」) and Fujian Donations of Non-public Ownership Economy Welfare Outstanding Contribution Award* (「福建非公有制經濟人士捐贈公益事業突出貢獻獎」) in June 2013. Mr. Liu was awarded as the Entrepreneur of the Year in Entrepreneur Conference of CYZONE* (「創業邦年會年度創業人物」) in November 2013. As the developer of "91 assistant" software first person, Mr. Liu received the Progress Prize Second Award in Fujian Province Science and Technology* (「福建省科學技術進步二等獎」) in January 2014. Mr. Liu was awarded the Special Allowance Expert in State Council* (「國務院特殊津貼專家」) in January 2015 and the Publishing Award for Outstanding People in Fujian Province* (「福建省優秀出版人物獎」) in September 2015. Mr. Liu is also a director of NetDragon Websoft (Hong Kong) Limited ("NetDragon (Hong Kong)") and NetDragon Websoft Inc. ("NetDragon (BVI)"). Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

* *For identification purpose only*

Liu Luyuan, aged 42, Executive Director, Chief Executive Officer, Compliance Officer and one of the authorized representatives of the Company

Mr. Liu also serves as CEO of TQ Digital and director of NetDragon (BVI). Mr. Liu currently shoulders a number of social services, such as acting as director general of the West Taiwan Strait Youth Entrepreneurs Foundation, chairman of Fujian Youth Development Foundation, vice-chairman of the Fujian Youth Federation, executive vice-chairman of Fujian Enterprises and Entrepreneurs Confederation, chairman of Fujian Youth Entrepreneurs Association, is a standing committee member of the All-China Youth Federation, as well as a member of the CPPCC Fujian Provincial Committee.

As an outstanding representative of the new social community taking part in the construction of the Fujian West-strait Economic Zone, Mr. Liu has been engaged in the operation and management of software enterprises and technology development since his graduation from Chengdu Electronic Technology University in 1997. He has decades of experience in the management and administration of technical institutions. In the company, Mr. Liu is in charge of overall management. He has setup the project management department, and introduced the game project management system to ensure a level of standards for game products. Meanwhile, as the company's spokesman, he is also responsible for coordination with governmental departments, media, and other external parties, under which he has built up the company's public reputation. By taking part in various activities on behalf of the company, he shared new ideas and new technologies in animation and game industry. Furthermore, the West Taiwan Strait Youth Entrepreneurs Foundation was setup to cultivate talent. This foundation, with up to RMB2 million in donations each year, offers enterprise training, interest free loans, and many other public services to support the game industry and youth business. Mr. Liu was awarded the "May 4th Youth Medal", and the titles of "Brilliant Entrepreneur", "Outstanding Young Person", "Excellent Talent", and "Fujian Entrepreneur with Outstanding Contributions". Since 2013, Mr. Liu has won many honors, such as "Outstanding Contributions in Fujian Economic Construction", "2012 Outstanding Entrepreneur in the 9th China Game Industry Annual Meeting", and "Fujian Outstanding Entrepreneur".

Mr. Liu graduated from Chengdu Electronic Technology University in 1997, with a degree in electro-mechanical engineering, and later received an adjunct professor certificate from Fujian Normal University. Mr. Liu is a brother of Liu Dejian, and cousin of Zheng Hui.

DIRECTORS AND SENIOR MANAGEMENT

Zheng Hui, aged 47, Executive Director

Mr. Zheng is an Executive Director of the Company and responsible for the overall management and administration of the Group. Mr. Zheng manages our administrative department and provides supporting resources to our operation. Mr. Zheng also coordinates, supervises and manages the duties of our various departments. Mr. Zheng has more than 20 years of management and administration experience. He is one of the founding shareholders and has been appointed as the senior executive manager in NetDragon (Fujian) since 1999. Mr. Zheng is the legal representative, director and manager of Fuzhou Tiannuo Network Technology Limited* (福州天諾網絡科技有限公司) and Fuzhou Changyu Network Technology Limited* (福州暢裕網絡科技有限公司), the legal representative and director of Fujian Tianquan Education Technology Limited* (福建天泉教育科技有限公司) since 2012, the legal representative and Director of Fujian Huayu Future Education Technology Limited* (福建華漁未來教育科技有限公司) and the legal representative, executive director and manager of Fujian NetDragon Art Communication Limited* (福建網龍藝術傳播有限公司). He is also a member of the first Fujian Cultural Enterprises Association* (福建省文化企業協會) and Secretary General of Fuzhou Association for Service and Trade Development Promotion* (福州市服務貿易發展促進協會). Before founding NetDragon (Fujian) in 1999, Mr. Zheng worked in Beso and Fuzhou 851 from 1992 to 1999. He obtained a graduation certificate from the Continuing Education Institute of Beijing Normal University in 2000. Zheng Hui is the cousin of Liu Dejian and Liu Luyuan.

Chen Hongzhan, aged 43, Executive Director, Vice President, Chief Technology Officer

Mr. Chen is the Vice President, Chief Technology Officer and Executive Director of the Company. He worked as a game developer before joining the Company in 2001. The technical team led by Mr. Chen is responsible for the development procedure of our games and the technical support to the production of our games. His technical support and experience have raised the efficiency and quality of the company's game development department. He is an experienced online game developer with over 10 years of experience in the management of game development. He is mainly responsible for game development of the Company. Mr. Chen established his own online game studio from 1996 to 1999. Before joining us in 2001, Mr. Chen worked as the project manager in Chongqing Dazhong Software Company from 1998 to 2000 and the manager of the technical department in Beijing Beijibing Technology Development Company Limited from 2000 to 2001. Mr. Chen graduated with a Bachelor's degree of Engineering in Mechanical Design and Manufacture (「機械設計及製造」) from Beihang University (「北京航空航天大學」) in July 1995.

* *For identification purpose only*

Leung Lim Kin, Simon, aged 61, Executive Director

Dr. Leung Lim Kin, Simon, aged 61, joined the Company in March 2015. He is responsible for the planning, consolidation and operation of the education business of the Company in the People's Republic of China and the development of the online education business overseas.

Dr. Leung had over 30 years of experience in both information technology and telecommunications industries. In 2005, he was appointed as the president of Motorola Asia-Pacific, a company principally engaged in the production of data communication and telecommunication equipment, where he was primarily responsible for the overall strategic planning and implementation in the Asia-Pacific region. Since 2008, Dr. Leung was the chief executive officer of Microsoft Greater China region, a company principally engaged in developing, manufacturing, licensing and sales of software products, where he was primarily responsible for overseeing overall business operations and for developing and implementing a regional strategy.

Prior to joining the Company, Dr. Leung also held management roles at various educational institutions or corporations engaging in education business. From 2009 to 2010, he was the governor of the Upper Canada College, an educational institution, where he was primarily responsible for establishing and directing policy for the college and overseeing its financial affairs. In 2012, Dr. Leung was the chief executive officer of Harrow International Management Services Limited, a company principally engaged in the management of Harrow International Schools, where he was responsible for the development of new Harrow International Schools and education services in Asia.

Dr. Leung received his bachelor of arts degree and an honorary doctorate in laws from the University of Western Ontario, Canada in 1978 and 2005 respectively and a doctorate in business administration from Hong Kong Polytechnic University in 2007.

Dr. Leung currently serves as a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business of the University of Western Ontairo, an educational institution, where he is primarily responsible for advising the school on its mission strategy in Asia. He is also a governor of Tung Wah College, an educational institution, where he is primarily responsible for determining key governance issues. He has been appointed as a member of the Steering Committee on Innovation and Technology of HKSAR. Since 2010, Dr. Leung has been a member of the International Advisory Committee of the Hong Kong Polytechnic University. Mr. Leung is also an independent non-executive director of Purapharm Corporation Limited (Stock Code: 1498) which is listed on the Main Board of the Stock Exchange of Hong Kong Limited.

NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 53, Non-executive Director

Mr. Lin was appointed as a non-executive Director on 15 October 2007. Mr. Lin graduated with a Master's degree in Engineering Management in 1986 from Tsinghua University. He is currently the general partner of IDG Capital Partners. Before he took up the post, he was the vice president of IDG Technology Venture Investment Inc., and has served as a general partner of IDG Technology Venture Investment since 1999. He has over 13 years of experience in venture investment. He was nominated by the IDG Group to the Board and was appointed as a non-executive Director since 15 December 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 50, Independent non-executive Director

Mr. Chao was appointed as an independent non-executive Director on 15 October 2007. Mr. Chao is also the chairman of the audit committee, a member of the remuneration committee and nomination committee. Mr. Chao is the Chairman of the Board and Chief Executive Officer of SINA Corporation, a publicly listed company in Nasdaq. Mr. Chao joined SINA Corporation as a Vice President of Finance in 1999 and served as its Co-Chief Operating Officer, President and Chief Financial Officer before his current position as the Chairman of the Board and Chief Executive Officer. Prior to joining SINA, Mr. Chao served as an experienced audit manager in PricewaterhouseCoopers LLP to provide audit and business consulting services for companies in Silicon Valley, California. Mr. Chao is also currently the Chairman of the board of directors of a leading social media company, "Weibo", which is a publicly listed company in Nasdaq, the Co-Chairman of the board of directors of a real estate services company "E-House", which is a publicly listed company in New York Stock Exchange, and a director of a leading real estate O2O integrated services platform "Leju Holdings", which is a publicly listed company in New York Stock Exchange. Mr. Chao was a certified public accountant and the member of AICPA. Mr. Chao graduated with a Master's degree in professional Accounting from the University of Texas at Austin in 1993, a Master's degree in Journalism from the University of Oklahoma in 1991 and a Bachelor's degree in Journalism from the Fudan University in 1988.

Lee Kwan Hung, aged 50, Independent non-executive Director

Mr. Lee was appointed as an independent non-executive Director on 15 October 2007. Mr. Lee is also the chairman of our remuneration committee, a member of our audit committee and nomination committee.

He is a practicing solicitor and received his LL.B (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as solicitor in Hong Kong in 1991 and in England and Wales in 1997. He joined Howse Williams Bowers, a law firm in Hong Kong, as a consultant in 2014.

Mr. Lee is currently an independent non-executive director of Embry Holdings Limited, Asia Cassava Resources Holdings Limited, Newton Resources Ltd, Tenfu (Cayman) Holdings Co. Ltd, Landsea Green Properties Co., Ltd., China BlueChemical Limited, Futong Technology Development Holdings Limited, Red Star Macalline Group Corporation Ltd. FSE Engineering Holdings Limited, Ten Pao Group Holdings Limited and China Goldjoy Group Limited, the shares of which are listed on the Stock Exchange. Mr. Lee was also an independent non-executive director of (1) Yuexiu REIT Asset Management Limited between November 2005 and October 2014, (2) Far East Holdings International Limited between March 2012 and November 2014 and (3) Walker Group Holdings Ltd. between February 2011 and March 2016. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

Liu Sai Keung, Thomas, aged 43, Independent non-executive Director

Mr. Liu is the Chief Operation Officer of Vision Credit Limited. He was appointed as an independent non-executive Director on 15 October 2007. Mr. Liu is also the chairman of our nomination committee, a member of our audit committee and remuneration committee. He graduated with a MBA degree from the Anderson School at the University of California, Los Angeles, and a Bachelor's degree in Business Administration and a Master's degree in Finance from the Chinese University of Hong Kong in 1995 and 1999 respectively. Prior to joining Vision Credit Limited in 2011, he served as the managing director of Vision Capital Group in 2009, the managing director of strategic investments of GroupM China from 2007 to 2009 and the vice president of Star Group Limited from 2006 to 2007. He has also served as a business development director of TOM Online Limited and an investment banking associate of the New York office of Lehman Brothers Inc.

SENIOR MANAGEMENT

Yam Kwok Hei, Benjamin, aged 40, Chief Financial Officer and Qualified Accountant

Mr. Yam joined NetDragon as our Chief Financial Officer in October 2013 and is responsible for financial management, investor relations and overseas strategic business development. Mr. Yam has over 15 years of professional experience in financial services spanning private equity, corporate finance and auditing. Prior to joining NetDragon, he was a Partner at a Hong Kong-based venture capital firm, and before that, he worked for over 7 years at SAIF Partners, a pre-eminent Asian private equity firm managing over USD4 billion, where he last served as Senior Vice President and was actively involved in leading the closing and exit of numerous investment transactions in Greater China, as well as serving as an active board member of several portfolio companies. In his early career, Mr. Yam also has professional experience in auditing at Arthur Andersen. Mr. Yam holds a Bachelor of Commerce degree from the University of British Columbia with major in accounting. He is a Chartered Accountant, an associate member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charterholder.

Yu Biao, aged 46, Vice-president of NetDragon, Chairman of Fujian Huayu (福建華漁) in PRC, CEO of Hubei NetDragon Chutian Education Technology Limited, Chairman of Fuzhou Software Technology Vocational College

After joining NetDragon in September 2009, Mr. Yu has been responsible for the planning, consolidation and operation of the education business of NetDragon in the PRC, and the development of the online education business overseas. He was a director of Xiamen Digital Engine Network Co., Ltd. (廈門數位引擎網絡有限公司) in 2000. He was Assistant to the Dean of Fuzhou-Napier College (福州大學中英Napier學院) from 2000 to 2007, Managing Director of Fuzhou Bojie Education Consultation Co., Ltd. (福州博傑教育諮詢有限公司) in February 2004, Deputy Director of the Chinese and Australian Class Project of Fuzhou No.8 Secondary School and the Chief Representative of the Australian school in the PRC in June 2006 and Managing Director of Fuzhou Bojie Child Education Technology Co., Ltd. (福州博傑兒童教育科技有限公司) from 2008 to 2009. Mr. Yu graduated from the Department of Light Industries of Fuzhou University in 1992, majoring in food engineering. He has over 15 years of experience in education management.

Lin, Chiachuan, Peter, aged 45, Chief Designer

After joining NetDragon in April 2013, Mr. Lin has participated in its businesses, such as the development and design of interface and hardware of the Company's products and design of gaming experience. He is currently responsible for the management of User Experience Design Center (UEDC) and Industrial Design Centre (IDC) and certain overseas design teams. Mr. Lin served as the senior manager of the design centre of BenQ Corporation (BenQ) from 2004 to 2006, and the chief designer of BenQ from 2006 to 2010, responsible for the design of brand-name products. He joined Samsung Design China under Samsung Electronics as the creative director/deputy chief in 2012. Mr. Lin graduated from Rochester Institute of Technology in New York, the U.S. and obtained a master's degree of fine arts (MFA). He has over 18 years of experience in design and development and management of brand-name products.

Lin Xin, aged 39, Vice-president of NetDragon

After joining NetDragon in 2008, Mr. Lin is in full responsible for the marketing operation of game-products and 91 mobile phone assistant platforms before it had been sold. Under his leadership, NetDragon gets the outstanding achievements on both online game and 91 mobile phone assistant platform operation.

Mr. Lin has keen discernment of the market, forward-looking understanding of the global game and mobile network industry market situation, profound understand the operation mode of related industry. Before he joins into NetDragon, Mr. Lin served for Ogilvy China for more than 10 years, Ogilvy China is one of the world's largest communications services companies, which makes him has unique insight of the various consumer groups in China and very effective practice of different fields of communication industry and brand management.

Wang Song, aged 34, Vice President

Mr. Wang joined NetDragon Group in 2002 and is responsible for the game projects, such as Eudemons Online《魔域》 and Conquer Online 《征服》. He has also participated in the planning of a number of major projects, including Monster & Me《幻靈游俠》, Zero Online《機戰》, OL Tou Ming Zhuang Online《投名狀OL》 and OL Heroes of Might & Magic Online《英雄無敵OL》. Mr. Wang has also been responsible for the planning and research and development of educational products of the Group since 2013.

Lin Wei, aged 37, Vice President and General manger of 101 Education

Mr. Lin joined Netdragon in 2008 and is currently the vice president of NetDragon Websoft Inc. He concurrently acted as the general manager of Fujian 101 Education Technology Co. Ltd. (福建一零一教育科技有限公司), mainly responsible for the sales of the educational products, research and development and production of hardware products of the Company. Mr. Lin has over 15 years of experience in IT, mobile Internet and education industries. He worked for DELL (China) before joining Netdragon.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Hak Kin, Wood, aged 38, Financial Controller, Qualified Accountant, Head of Compliance and Corporate Affairs and Company Secretary

Mr. Lau joined the NetDragon as Financial Controller and Head of Compliance and Corporate Affairs in February 2014 and was appointed as the Company Secretary of the Group in September 2014. Mr. Lau holds a bachelor's degree in business administration, majoring in accountancy, from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a CFA charterholder. He has over 10 years of experience in financial management, risk management, accounting, taxation and auditing and previously worked for PricewaterhouseCoopers and acting chief financial officer of Asian Citrus Holdings Limited before joining the Company.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 July 2004 and is an investment holding company. The shares of the Company have been listed on the Main Board of the Stock Exchange since 24 June 2008.

The Group is principally engaged in online games development, including games design, programming and graphics and online games operation, education business and mobile solution and mobile marketing business.

Details of the principal activities of the Company's principal subsidiaries are set out in note 50 of Notes to the Consolidated Financial Statements.

BUSINESS REVIEW

The fair review of the Group's business for the year ended 31 December 2015 is set out in "Management Discussion and Analysis" section on pages 23 to 26.

Details of analysis of the financial key performance are set out in "Management Discussion and Analysis" section on pages 14 to 22.

PRINCIPAL RISKS & UNCERTAINTIES

Competition in the online game industry in the global market, including the PRC, is becoming increasingly intense. There are already several online game companies, such as Zynga.com, Electronic Arts, Perfect World, IGG Inc, NetEase.com, Tencent Holding Limited and Changyou.com, which have successfully listed their shares on NASDAQ, or the Hong Kong Stock Exchange. These companies all have strong financial resources. Moreover, there are many venture-backed private companies focusing on online game development further intensifying the competition, particularly in the global market. Recently, many of the competitors have not only been aggressively recruiting talent to bolster their game development capabilities, but also increasing their spending on game marketing. Increased competition in the online game market may make it difficult for the Group to retain our existing employees, attract new employees, acquire new players and sustain our growth rate.

BUSINESS REVIEW (Cont'd)

PRINCIPAL RISKS & UNCERTAINTIES (Cont'd)

The Company is impacted by the emergence of new technologies and games. New technologies in online game development or operations could render the games that the Group designs or plans to develop obsolete or unattractive to players, thereby limiting our ability to recover the development costs, which could potentially adversely affect our future profitability and growth prospects.

The Group relies on the spending of our game players for our revenue, which may in turn depend on the players' level of disposable income, job security, perceived future earnings capabilities and willingness to spend. The global economy experienced a slowdown since the financial crisis, and the slowdown was further exacerbated by European debt crisis. It is uncertain how long and to what extent global economic difficulties will continue and how much adverse impact it will have on the economies in markets where we operate our games, such as North America, Europe, and Asia. If our game players reduce their spending on playing games due to such uncertain economic conditions, our business, financial condition and results of operations may be adversely affected.

Details of the risks relating to the contractual arrangements are set out on pages 65 to 67.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS WITH ITS SUCCESS

The future success of the Group is heavily dependent upon the continued service of our key executives and other key employees. In particular, the Group relies on the expertise and experience of Liu Dejian, an executive Director, in our business operations. Mr. Liu is mainly responsible for overall business strategic development and is the chief game designer of our game development team. Mr. Liu leads the game development team on the design of our online game products. He formulates our development policy and contributes to our growth as a competitive online game operator and developer.

The operating environment of the online game industry is changing rapidly. In order to maintain the profitability and financial and operational success, the Group must continuously develop new online games that are attractive to players, make improvements to the existing games that appeal to players and enhance the technical and artistic features of all of our games. The success of our games largely depends on our ability to anticipate and respond effectively to the ever changing customer preferences and demand.

The Group's suppliers include primarily server and bandwidth leasing companies and game operation service providers and it also relies on third party service providers in various aspects. The distribution and payment channels comprise (i) direct sales supported by online payment service providers and distribution partners, (ii) pre-paid card sales supported by distributors throughout the PRC, and (iii) cooperation channels supported by our cooperation partners. In addition, the Group relies on third parties in providing Internet support to our online games and also relies on an Independent Third Party for the license from the GAPP, which is fundamental to our business, to publish our games.

BUSINESS REVIEW (Cont'd)

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS WITH ITS SUCCESS (Cont'd)

The performance and the results of operation of the Group as set out in this Annual Report are historical in nature and past performance is not a guarantee of future performance. This Annual Report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual result may also differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume any obligations or liabilities in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.

COMPANIANCE WITH LAWS AND REGULATIONS

In relation to human resources, the Group is committed to complying with the requirements of the Personal Data (Privacy) Ordinance, and ordinances relating to disability, sex, family status and race discrimination, as well as the Employment Ordinance, the Minimum Wage Ordinance and ordinances relating to occupational safety of employees of the Group, so as to safeguard the interests and well-being of its employees.

The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and the guidelines issued by the Office of the Privacy Commissioner for Personal Data, with a view to protecting the privacy of its employees and customers.

On the corporate level, the Group complies with the requirements under the Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Securities and Futures Ordinance (the "SFO") for, among other things, the disclosure of information and corporate governance, and the Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. The Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behavior, employees'rights and benefits. We establish and implement policies that promote a harmony and respectful workplace.

The Group believes that employees are the valuable assets of an enterprise and regards human resources as its corporate wealth. We provide on-the-job training and development opportunities to enhance our employees' career progression. Through different training, staff's professional knowledge in corporate operations, occupational and management skills are enhanced.

BUSINESS REVIEW (Cont'd)

COMPANIANCE WITH LAWS AND REGULATIONS (Cont'd)

Health and Safety

The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, training and guidelines are implemented to ensure the working environment is healthy and safe. The Group provides health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of staff. In order to provide employees with health coverage, staff are entitled to medical insurance benefits as well as other health awareness programs.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2015 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 95.

The interim dividend of HKD0.10 per share amounting to approximately RMB39,246,000 for the six months ended 30 June 2015 was paid on 30 September 2015.

The Directors now recommend the payment of a final dividend of HKD0.10 per share. The final dividend is expected to be payable on or before Wednesday, 15 June 2016 to shareholders whose names appear on the register of members of the Company on Wednesday, 25 May 2016, amounting to approximately RMB49,767,000.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2015.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2015 are set out in note 13 of Notes to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements of the Company's issued shares for the year ended 31 December 2015 are set out in note 38 of Notes to the Consolidated Financial Statements.

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2015 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2015 and 2014, the Company had reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB49,767,000 (2014: approximately RMB78,865,000) and retained earnings of approximately RMB106,843,000 (2014: approximately RMB419,154,000) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue from sales of goods or rendering of services attributable to the Group's five largest customers and the Group's largest customer accounted for approximately 14.4% and approximately 7.5%, respectively, of the Group's total revenue for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for approximately 37.6% and approximately 12.8%, respectively, of the Group's total purchase for the year.

So far as is known to the Directors, none of the Directors, their close associates, or shareholders (which to the best knowledge of the Directors owned more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest suppliers and customers during the year.

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were as follows:

Executive Directors

Mr. Liu Dejian (Chairman)
Mr. Liu Luyuan (Chief Executive Officer)
Mr. Zheng Hui
Mr. Chen Hongzhan
Dr. Leung Kim Lin Simon (appointed on 30 October 2015)

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

Mr. Chao Guowei, Charles (Notes 2, 3, 5)
Mr. Lee Kwan Hung (Notes 1, 4, 5, 8)
Mr. Liu Sai Keung, Thomas (Notes 1, 3, 6, 7)

Notes:

1. Member of Audit Committee
2. Chairman of Audit Committee
3. Member of Remuneration Committee
4. Chairman of Remuneration Committee
5. Member of Nomination Committee
6. Chairman of Nomination Committee
7. Member of Share Award Scheme Committee
8. Chairman of Share Award Scheme Committee

The Directors' profile is set out on page 36 to 41.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

Each of the executive Directors has entered into a service contract with the Company and each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commenced on 24 June 2008 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the current term unless and until terminated in accordance with the terms of the service contract or by either party thereto giving to the other not less than three months' prior written notice. Each of the executive Directors will receive a salary which is subject to annual review at the discretion of the Board.

The determination of the salary payment to the Directors will be based on salaries paid by comparable companies, time commitment, the duties and responsibilities of the Directors in the Company, the Company's performance and its remuneration policy.

Each of the executive Directors may also be entitled to a bonus payment in such amount as shall be determined by the Board in its absolute discretion provided that the aggregate sum of such bonus payments in any financial year shall, unless the Board shall determine otherwise, not exceed 1% of the audited consolidated net profit of the Group after taxation but before extraordinary items in the relevant financial year.

In accordance with article 87(1) of the articles of association of the Company, Mr. Liu Dejian, Mr. Zheng Hui and Mr. Chao Guowei, Charles will retire by rotation at the forthcoming annual general meeting (the "AGM").

In accordance with article 86(3) of the articles of association of the Company, any Director appointed from time to time by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Dr. Leung Lim Kin Simon who was appointed as an executive director of the Company on 30 October 2015 shall retire and being eligible offer himself for re-election at the 2016 Annual General Meeting of the Company.

Mr. Liu Dejian, Mr. Zheng Hui, Dr. Leung Lim Kin Simon and Mr. Chao Guowei, Charles, being eligible, will offer themselves for re-election at the AGM of the Company. None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has received annual confirmations of independence from Mr. Chao Guowei, Charles, Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas and considers them to be independent.

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

As at 31 December 2015, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Name of company**	**Capacity and nature of interests**	**Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
Liu Dejian *(Note 2)*	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	254,053,257(L)	51.05%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and beneficiary of certain trust	255,652,057(L)	51.37%
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%
Zheng Hui *(Note 2)*	The Company	Beneficial owner and through controlled corporations	254,053,257(L)	51.05%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and beneficiary of certain trust	11,197,019(L)	2.25%
Chao Guowei, Charles *(Note 5)*	The Company	Beneficial owner	818,000(L)	0.16%
Lee Kwan Hung *(Note 6)*	The Company	Beneficial owner	1,036,519(L)	0.21%
Liu Sai Keung, Thomas *(Note 7)*	The Company	Beneficial owner	935,019(L)	0.19%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Notes:

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.

2. Liu Dejian is interested in 95.36% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 38.39% of the issued share capital of the Company. Liu Dejian is also interested in 0.42% of the issued voting shares of the Company which is represented by beneficial interest of 1,798,800 shares, a beneficiary of a trust of 197,019 shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.

   Liu Luyuan is interested in 5.67% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust of 26,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

   Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued voting shares of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.39% and 3.82%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.80% of the issued voting shares of the Company. Zheng Hui is also interested in 0.30% of the issued shares of the Company which is represented by beneficial interest of 1,411,800 shares and the rest being underlying shares of 85,200 share options granted by the Company.

   Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.03% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian and Liu Luyuan, Fitter Property Inc. and Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"), Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian).

4. Chen Hongzhan is interested in 2.25% of the issued voting shares of the Company which is represented by personal interest of 71,000 shares, interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.

5. Chao Guowei, Charles is interested in 0.16% of the issued voting shares of the Company which is represented by personal interest of 579,500 shares and the rest being the underlying shares of interest of 238,500 shares options granted by the Company.

6. Lee Kwan Hung is interested in 0.21% of the issued voting shares of the Company which is represented by beneficial interest of 718,519 shares and the rest being underlying shares of interest of 318,000 share options granted by the Company.

7. Liu Sai Keung, Thomas is interested in 0.19% of the issued voting shares of the Company which is represented by beneficial interest of 117,019 shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2015, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 46 of the Notes to the Consolidated Financial Statements, no transaction, arrangement or contract of significance in relation to the Company's business, to which the Company was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as is known to the Directors, as at 31 December 2015, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100(L)	38.39%
IDG Group *(Note 2)*	The Company	Beneficial owner	78,333,320(L)	15.74%
Ho Chi Sing *(Note 2)*	The Company	Through controlled corporations	78,333,320(L)	15.74%
Zhou Quan *(Note 2)*	The Company	Through controlled corporations	73,490,095(L)	14.77%
First Elite Group Limited *(Note 3)*	The Company	Beneficial owner and through controlled corporation	26,463,011(L)	5.32%
Jardine PTC Limited *(Note 3)*	The Company	Trustee	26,463,011(L)	5.32%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.19%, 10.45%, 2.13% and 0.97% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

   a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.

   b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.

   c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

3. First Elite Group Limited is controlled by Jardine PTC Limited, which held on trust for Richmedia Holdings Limited.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2015.

CONNECTED TRANSACTIONS

ND STRUCTURE CONTRACTS

ND Cooperation Framework Agreement

With a view to offer further protection to the interests of the Company and the shareholders as a whole by means of contractual arrangements, Fujian TQ Digital Inc. (福建天晴數碼有限公司) ("TQ Digital") and Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") and its equity holders entered into the structure contracts (together with the contracts entered into between NetDragon (Fujian) and Fujian TQ Online Interactive Inc. ("TQ Online") as set out below, the "ND Structure Contracts"), which superseded the cooperation arrangements between TQ Digital and NetDragon (Fujian) effective from 1 January 2007. The registered owners of NetDragon (Fujian) are: (i) Liu Dejian, an executive Director (as to approximately 96.05%), (ii) Liu Luyuan, an executive Director (as to approximately 2.11%), (iii) Zheng Hui, an executive Director (as to approximately 0.70%), (iv) Chen Minlin, an employee of Fuzhou 851 (as to approximately 0.64%), and (v) Lin Yun, an employee of the Group (as to approximately 0.50%).

In view of the Enterprise Income Tax law adopted by the National People's Congress of the PRC on 16 March 2007, a wholly foreign owned enterprise, TQ Online, has been set up to gradually substitute TQ Digital in our operation. TQ Online has entered into the ND Structure Contracts with NetDragon (Fujian) on 16 May 2008. As TQ Digital is and will still be the party operating the existing versions of the Group's online games, all ND Structure Contracts entered into between TQ Digital and NetDragon (Fujian) will be retained.

Under the ND Structure Contracts, NetDragon (Fujian) is responsible to collect the revenue generated from the operation of the games. Through the ND Structure Contracts, we are able to recognize and receive the economic benefits of the business and operations of NetDragon (Fujian). The ND Structure Contracts enable TQ Digital and TQ Online to control over and to acquire the equity interests in and/or assets of NetDragon (Fujian) when permitted by the relevant PRC laws and regulations.

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

On 15 October 2007, TQ Digital and NetDragon (Fujian) entered into a cooperation framework agreement (the "ND Cooperation Framework Agreement") pursuant to which TQ Digital and NetDragon (Fujian) agreed to cooperate in the provision of services relating to the online game development for and the operation of the online game business of NetDragon (Fujian). The ND Cooperation Framework Agreement and the terms of reference of the management committee (the "ND Management Committee") laid down the principles that the ND Management Committee shall have right to determine the amount of license and service fees payable by NetDragon (Fujian) with reference to the amount of expenditure incurred by NetDragon (Fujian) in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) NetDragon (Fujian) shall pay the maximum amount of fees to TQ Digital without incurring any loss for each financial year; and (ii) the net asset value of NetDragon (Fujian) shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000. Further details of ND Management Committee are set out in the section of "Corporate Governance Report" under the paragraphs of "ND Management Committee". This principle will ensure that all of the net profit after tax of NetDragon (Fujian) in each financial year shall be paid to TQ Digital as service or license fees, and will give flexibility to the ND Management Committee to implement the ND Structure Contracts and its underlying principles more effectively in response to constantly changing the PRC laws and regulation.

On 16 May 2008, TQ Online and NetDragon (Fujian) entered into another cooperation framework agreement with the same terms as the ND Cooperation Framework Agreement, save as to the date, duration and the substitution of TQ Digital by TQ Online. The term of such cooperation framework agreement is 10 years commenced from 16 May 2008 and ending on 15 May 2018, and automatically renewable for successive 10 year terms provided that TQ Online does not issue any notice of termination one month before the termination date.

As a result of the ND Structure Contracts, TQ Digital and TQ Online are able to control NetDragon (Fujian), and accordingly, it is regarded as our subsidiary and its results are to be consolidated into our consolidated financial statements. Since NetDragon (Fujian) was under the common control of the same group of persons before and after our formation, the results and financial positions of NetDragon (Fujian) is combined into our consolidated financial statements using merger accounting as if NetDragon (Fujian) was part of us since its respective date of establishment or since the date when it first came under the common control.

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

In accordance with the terms of the ND Cooperation Framework Agreements, TQ Digital and TQ Online (where relevant) entered into (1) cooperation and license agreements in respect of online games; (2) online games software development service agreements; and (3) technical support service agreements with NetDragon (Fujian), for the purpose of license, development of online games and provision of technical services to NetDragon (Fujian). Details of the agreements are set out below:

Date of agreement signed	**Name of agreement**	**Summary of agreement**	**Terms of agreement**
15-10-2007 and 20-11-2007	Cooperation and license agreements in respect of online games	TQ Digital will license online game softwares to NetDragon (Fujian) for use in the PRC	• 10 years commencing from 01-01-2007 to 31-12-2016 • Consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
15-10-2007	Online game software development service agreement	TQ Digital will provide online software development service to NetDragon (Fujian)	• 10 years commencing from 01-01-2007 to 31-12-2016 • Consideration of a service fee
15-10-2007	Technical support service agreement	TQ Digital will provide technical support services to NetDragon (Fujian)	• 10 years commencing from 01-01-2007 to 31-12-2016 • Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
16-05-2008	Online game software development service agreement	TQ Online will provide online software development service to NetDragon (Fujian)	• 10 years commencing from 16-05-2008 to 15-05-2018 • Consideration of a service fee

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

Date of agreement signed	**Name of agreement**	**Summary of agreement**	**Terms of agreement**
16-05-2008	Technical support service agreement	TQ Online will provide technical support services to NetDragon (Fujian)	• 10 years commencing from 16-05-2008 to 15-05-2018 • Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
01-03-2009	Cooperation and license agreements in respect of online games	TQ Online will license online game softwares to NetDragon (Fujian) for use in the PRC	• 10 years commencing from 01-03-2009 to 28-02-2019 • Consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues

ND Equity Interest Pledge Agreement

On 28 September 2007, TQ Digital, NetDragon (Fujian) and all equity holders of NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to TQ Digital a continuing first priority security interests over their respective equity interests in the registered capital of NetDragon (Fujian), representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by NetDragon (Fujian)'s equity holders under the ND Structure Contracts.

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Agreement for the Exclusive Right to Acquire Equity Interest and Assets

On 15 October 2007, TQ Digital, NetDragon (Fujian) and all of the equity holders of NetDragon (Fujian) entered into an agreement for the exclusive right to acquire equity interest and assets, pursuant to which NetDragon (Fujian) and all its equity holders granted to TQ Digital or its designee (a) a right to acquire part or all of the equity interest in the registered capital of NetDragon (Fujian); and (b) a right to acquire part or all of the assets of NetDragon (Fujian) from the equity holders of NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by TQ Digital to the equity holders of NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law. If the minimum amount of consideration stipulated under the relevant PRC laws and regulations is higher than the nominal amount at the time of exercise of the acquisition right, Liu Dejian, Liu Luyuan and Zheng Hui had jointly, severally and irrevocably undertaken to reimburse the Company or its subsidiaries of any amount in excess of the nominal amount.

ND Equity Holders' Voting Rights Proxy Agreement

On 15 October 2007, all equity holders of NetDragon (Fujian) entered into an equity holders' voting rights proxy agreement (the "ND Proxy Agreement") with TQ Digital and NetDragon (Fujian), pursuant to which all equity holders of NetDragon (Fujian) have irrevocably authorised TQ Digital or a nominee designated by TQ Digital (which will likely be a director of TQ Digital) to exercise all their voting rights in NetDragon (Fujian). The term of the ND Proxy Agreement shall continue indefinitely for so long as NetDragon (Fujian) subsists in order to secure our control over NetDragon (Fujian).

ND Other Contracts

The Directors expect that there may be other contracts, such as service agreement and/or cooperation and license agreement, to be entered from time to time (the "ND Other Contract(s)") between the Company and its subsidiaries on the one hand and NetDragon (Fujian) on the other. Save as disclosed in this report, no ND Other Contract subsisted at the end of the year or at any time during the year under review.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS

WAIVER FROM THE STOCK EXCHANGE AND ANNUAL REVIEW

As Liu Dejian, Liu Luyuan and Zheng Hui, being the executive Directors and the controlling shareholders of the Company, are interested in an aggregate of 98.86% in NetDragon (Fujian), NetDragon (Fujian) is technically an associate of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore a connected person of the Company. Transactions between the Company, NetDragon Websoft Inc. ("NetDragon (BVI)"), TQ Digital, TQ Online or NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts, would technically constitute connected transactions under the Listing Rules. The Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirement of Chapter 14A of the Listing Rules in respect of the ND Structure Contracts and the ND Other Contracts. Details of the waiver, together with its conditions, are set forth in the listing document of the Company dated 27 May 2008 (the "Listing Document").

On 10 February 2015, Fujian Tianquan Education Technology Limited ("Fujian Tianquan"), Fujian Huayu Future Education Technology Limited ("Fujian Huayu") and NetDragon (Fujian) have entered into the Best Assistant Control Documents (as defined below). Pursuant to the Specific Waiver granted by the Stock Exchange to the Company at around the time of Listing, the framework of the ND Structure Contracts may be cloned in relation to any existing or new wholly foreign owned enterprise, operating company or foreign-invested telecommunication enterprise ("FITE") that the Company might wish to establish, without obtaining the approval of the Shareholders on terms that the protections for the Shareholders described in the Specific Waiver will apply.

The Best Assistant Control Documents are cloned from the ND Structure Contracts such that Fujian Tianquan will receive service fees from Fujian Huayu, and the total amount of which shall be determined by the Best Assistant Management Committee (as defined below) with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements under the guiding principles that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000.

The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of Fujian Huayu will be enjoyed by Fujian Tianquan and will give flexibility to the Best Assistant Management Committee to implement the Best Assistant Control Documents and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

As the Best Assistant Control Documents are cloned from the ND Structure Contracts, transactions under the Best Assistant Control Documents are exempt from Shareholders' approval.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

WAIVER FROM THE STOCK EXCHANGE AND ANNUAL REVIEW (Cont'd)

The amount of revenue and assets subject to the contractual arrangements under the ND Structure Contracts and the Best Assistant Control Documents accounted for approximately 70.7% and 29.2% of the Group's total revenue and assets, respectively, for the year ended 31 December 2015.

The Company's independent non-executive Directors have reviewed the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents and confirmed that the relevant transactions carried out thereunder during the year ended 31 December 2015 have been entered into in accordance with the relevant provisions of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents, have been operated so as to allow (a) the economic interest generated by NetDragon (Fujian) flows to TQ Digital and TQ Online; and (b) the economic interest generated by Fujian Huayu flows to Fujian Tianquan; and the new structure contracts (including the Best Assistant Control Documents) entered into, renewed and/or cloned during the year ended 31 December 2015 were entered into on terms that are fair and reasonable so far as the Company is concerned and in the interests of the shareholders of the Company as a whole.

Each of NetDragon (Fujian) and Fujian Huayu has provided to the Company an undertaking that they will allow the Company and its auditor to have full access to relevant records of NetDragon (Fujian) and Fujian Huayu, respectively.

With a view to offer further protection to the interests of the Best Assistant Education Online Limited ("Best Assistant (Cayman)") and its shareholders as a whole by means of contractual arrangements, NetDragon (Fujian), Fujian Tianquan and Fujian Huayu, which is cloning the ND Structure Contracts, entered into the original best assistant structure contracts and the supplemental agreement to the original best assistant structure contracts (collectively the "Best Assistant Structure Contracts") on 22 August 2012 and 12 December 2013 respectively.

Under the Best Assistant Structure Contracts, Fujian Huayu was responsible to collect the revenue generated from the operation of the educational softwares business. Through the Best Assistant Structure Contracts, we were able to recognizes and receive the economic benefits of the business and operations of Fujian Huayu. The Best Assistant Structure Contracts enabled Fujian Tianquan to control over and to acquire the equity interests in and/or assets of Fujian Huayu when permitted by the relevant PRC laws and regulations.

The management committee of Fujian Huayu has passed the unanimous resolutions to terminate the Best Assistant Structure Contracts, technical support services agreement, Best Assistant agreement for the exclusive right to acquire equity interest and assets, Best Assistant equity holders' voting rights proxy agreement and Best Assistant equity interest pledge agreement with effect from 1 January 2014.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

On 10 February 2015, Fujian Tianquan Education Technology Limited ("Fujian Tianquan"), Fujian Huayu Future Education Technology Limited ("Fujian Huayu") and NetDragon (Fujian) entered into the Best Assistant Coorperation Framework Agreement (as defined below), a technical support service agreement, an equity interest pledge agreement, an exclusive acquisition rights agreement and a proxy agreement (collectively, the "Best Assistant Control Documents"). The register owner of Fujian Huayu is NetDragon (Fujian).

Save for the entering into of the Best Assistant Control Documents, details of which are disclosed below, there were no other new arrangements pursuant to or under the contractual arrangements entered into, renewed or reproduced between the Group and the PRC operational entity during the year ended 31 December 2015, and there was no material change in the contractual arrangements and/or the circumstances during the year ended 31 December 2015.

Best Assistant Cooperation Framework Agreement

On 10 February 2015, Fujian Tianquan and Fujian Huayu have entered into a cooperation framework agreement (the "Best Assistant Coorperation Framework Agreement") pursuant to which Fujian Tianquan and Fujian Huayu agreed to cooperate in the provision of value-added telecommunications services relating to the online educational softwares business development for and the operation of the online educational softwares business of Fujian Huayu. The Best Assistant Cooperation Framework Agreement and the terms of reference of the management committee (the "Best Assistant Management Committee") laid down the principles that the Best Assistant Management Committee shall have right to determine the amount of license and service fees payable by Fujian Huayu with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2015, being approximately RMB200,000,000. This principle will ensure that all economic benefits generated from the operation of Fujian Huayu in each financial year will be enjoyed by Fujian Tianquan as service or license fees, and will give flexibility to the Best Assistant Management Committee to implement the Best Assistant Control Documents and its underlying principles more effectively in response to constantly changing the PRC laws and regulation.

As a result of the Best Assistant Control Documents, Fujian Tianquan is able to control Fujian Huayu, accordingly, it is regarded as subsidiary of Best Assistant (Cayman) and its results are to be consolidated into financial statements of Best Assistant (Cayman). Since Fujian Huayu was under the common control of the same group of persons before and after our formation, the results and financial positions of Fujian Huayu is combined into financial statements using merger accounting as if Fujian Huayu was part of us since its date of establishment or since the date when it first came under the common control.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Cooperation Framework Agreement (Cont'd)

In accordance with the terms of the Best Assistant Cooperation Framework Agreement, Fujian Tianquan entered into the technical support service agreement with Fujian Huayu, for the purpose of license, development of educational softwares business and provision of technical services to Fujian Huayu. Details of the agreement are set out below:

Date of agreement signed	Name of agreement	Summary of agreement	Terms of agreement
10-02-2015	Technical support service agreement	Fujian Tianquan will provide technical support services to Fujian Huayu	• For a indefinite term commencing from 10-02-2015, unless Fujian Huayu have transferred all its assets or equity interests to Fujian Tianquan or a party designated by Fujian Tianquan • Consideration of a per annum services fee determined as a percentage of Fujian Huayu annual gross revenues

Best Assistant Equity Interest Pledge Agreement

On 10 February 2015, Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which NetDragon (Fujian) granted to Fujian Tianquan a continuing first priority security interests over its equity interests in the registered capital of Fujian Huayu, representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by Fujian Huayu under the Best Assistant Control Documents.

Best Assistant Exclusive Acquisition Rights Agreement

On 10 February 2015, Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) entered into an exclusive acquisition rights agreement, pursuant to which Fujian Huayu and NetDragon (Fujian) granted to Fujian Tianquan or its designee (a) a right to acquire part or all of the equity interest in the registered capital of Fujian Huayu; and (b) a right to acquire part or all of the assets of Fujian Huayu from NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by Fujian Tianquan to NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Proxy Agreement

On 10 February 2015, NetDragon (Fujian) entered into a proxy agreement with Fujian Tianquan and Fujian Huayu, pursuant to which NetDragon (Fujian) have irrevocably authorised Fujian Tianquan or a nominee designated by Fujian Tianquan to exercise all their voting rights in Fujian Huayu. The term of the Best Assistant Proxy Agreement shall continue indefinitely for so long as Fujian Huayu subsists in order to secure our control over Fujian Huayu.

REASONS FOR ENTERING INTO THE CONTRACTUAL ARRANGEMENTS

As NetDragon (BVI) and Best Assistant are companies incorporated in the British Virgin Islands and Cayman Islands respectively, their PRC subsidiaries, TQ Digital, TQ Online and Fujian Tianquan are considered as wholly foreign-invested enterprises. The PRC government restricts foreign investment in value-added telecommunications businesses. The arrangements under the contractual arrangements are designed specifically to confer upon TQ Digital and TQ Online (in the case of the ND Structure Contracts) and Fujian Tianquan (in the case of the Best Assistant Control Documents) the right to enjoy all the economic benefit of NetDragon (Fujian) and Fujian Huayu respectively, and to prevent leakages of assets and values of NetDragon (Fujian) and Fujian Huayu to their ultimate shareholders.

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

There is no assurance that the contractual arrangements are in compliance with existing or future PRC laws and regulations

The Company has not encountered any interference from any governing bodies in operating its business through NetDragon (Fujian) and/or Fujian Huayu under the contractual arrangements.

However, it cannot be assured that the PRC government or judicial authorities would agree that the contractual arrangements comply with PRC licensing, registration, other regulatory requirements or policies that may be adopted in the future. If the PRC government or judicial authorities determines that the contractual arrangements do not comply with applicable laws and regulations, it could have broad discretion in dealing with such incompliance, including:

1. requiring the nullification of the contractual arrangements;
2. levying fines and/or confiscating the proceeds generated from the operations under the contractual arrangements;
3. revocation of the business licenses or operating licenses of NetDragon (Fujian), Fujian Huayu, TQ Digital, TQ Online and/or Fujian Tianquan;
4. discontinuing or placing restrictions or onerous conditions on the business operations of NetDragon (Fujian), Fujian Huayu, TQ Digital, TQ Online and/or Fujian Tianquan;

CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

There is no assurance that the contractual arrangements are in compliance with existing or future PRC laws and regulations (Cont'd)

5. imposing conditions or requirements which the Group may not be able to comply with or satisfy;

6. requiring the Group to undergo a costly and disruptive restructuring; and

7. taking other regulatory or enforcement actions that could be harmful to or even shut down online game business and/or online education business of the Group.

The imposition of any of the above-mentioned consequences could result in a material and adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these consequences causes TQ Digital, TQ Online and/or Fujian Tianquan to lose the rights to direct the activities of NetDragon (Fujian) and/or Fujian Huayu or their respective rights to receive their economic benefits, the Group would no longer be able to consolidate the financial results of NetDragon (Fujian) and/or Fujian Huayu and thus affect its financial results.

Each of TQ Digital, TQ Online and Fujian Tianquan relies on the contractual arrangements to control and obtain the economic benefit from NetDragon (Fujian) and Fujian Huayu, the operating entities in the PRC, which may not be as effective in providing operational control as direct ownership.

If NetDragon (Fujian), Fujian Huayu and/or their ultimate shareholders breach their obligations under the contractual arrangements or if TQ Digital, TQ Online and/or Fujian Tianquan loses effective control over NetDragon (Fujian) and/or Fujian Huayu for any reason, TQ Digital, TQ Online and/or Fujian Tianquan would need to bring a claim against them under the terms of the contractual arrangements. The contractual arrangements are governed by the PRC law and provide that any dispute arising from these arrangements will be submitted to the Fuzhou International Economic and Trade Arbitration Commission, for arbitration, the ruling of which will be final and binding. Furthermore, personal liabilities of ultimate shareholders of NetDragon (Fujian) and Fujian Huayu may also subject the equity interest they hold in NetDragon (Fujian) and Fujian Huayu to court preservation actions or enforcement. The legal framework and system in the PRC, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as Hong Kong. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in the PRC, which could limit TQ Digital, TQ Online and/or Fujian Tianquan's ability to enforce the contractual arrangements and exert effective control over NetDragon (Fujian) and/or Fujian Huayu. If NetDragon (Fujian), Fujian Huayu and/or their ultimate shareholders fail to perform their respective obligations under the contractual arrangements, and TQ Digital, TQ Online and/or Fujian Tianquan is unable to enforce the contractual arrangements, or suffer significant delay or other obstacles in the process of enforcing the contractual arrangements, the Group's business and operations could be severely disrupted, which could materially and adversely affect its results of operations.

CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

Certain terms of the ND Structure Agreements and the Best Assistant Control Documents may not be enforceable under PRC laws.

Under PRC laws, an arbitral body granting any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in PRC legal entities in case of disputes shall submit the application to courts in the PRC. Therefore, such remedies may not be available to TQ Digital, TQ Online and/or Fujian Tianquan, notwithstanding the relevant contractual provisions contained in the ND Structure Agreements and the Best Assistant Control Documents. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in NetDragon (Fujian) and Fujian Huayu in favour of an aggrieved party. In the event of non-compliance with such award made by the arbitral body, enforcement measures may be sought from the court.

In the event that NetDragon (Fujian), Fujian Huayu and/or any of their ultimate shareholders breaches any of the ND Structure Contracts and/or the Best Assistant Control Documents, TQ Digital, TQ Online and/or Fujian Tianquan may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over NetDragon (Fujian) and/or Fujian Huayu and conduct its business could be materially and adversely affected and the financial performance of the Group could be materially and adversely affected.

The contractual arrangements may be subject to scrutiny by the PRC tax authorities and any finding that TQ Digital, TQ Online, Fujian Tianquan, NetDragon (Fujian) and/or Fujian Huayu owes additional taxes could substantially reduce the consolidated net income and the value of the Group.

Under the contractual arrangements, NetDragon (Fujian) will transfer all of its profits to TQ Digital and TQ Online, while Fujian Huayu will transfer all of its profits to Fujian Tianquan. Such profits will be net of any accumulated loss, working capital requirements, expenses and tax and therefore substantially reduce NetDragon (Fujian) and Fujian Huayu's taxable income. These arrangements and transactions are related party transactions which must be conducted on an arm's length basis under applicable PRC tax rules. In addition, under PRC laws and regulations, arrangements and transactions among related parties may generally be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. As a result, the determination of service fees and other payments to TQ Digital and TQ Online by NetDragon (Fujian) and to Fujian Tianquan by Fujian Huayu under the contractual arrangements may be challenged and deemed not in compliance with such tax rules. The Group could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements were not entered into on an arm's length basis and therefore adjust the taxable income of NetDragon (Fujian) and/or Fujian Huayu in the form of a transfer pricing adjustment which refers to the prices that one member of a group of affiliated corporation's charges to another member of the group for goods, assets, services, financing or the use of intellectual property. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by NetDragon (Fujian) and/or Fujian Huayu, which could in turn increase NetDragon (Fujian) and/or Fujian Huayu's tax liabilities. Any such adjustment could result in a higher overall tax liability of the Group. In addition, the PRC tax authorities may impose late payment fees and other penalties on NetDragon (Fujian) and/or Fujian Huayu for any unpaid taxes. The consolidated net income of the Group may be materially and adversely affected if NetDragon (Fujian) and/or Fujian Huayu's tax liabilities increase or if it is subject to late payment fees or other penalties. As a result, the value of the Group may be materially and adversely affected.

CONNECTED TRANSACTIONS (Cont'd)

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

It is the intention of the Group to unwind the contractual arrangements when foreign investment in the development and operation of online game and online education business is no longer restricted in the PRC.

However, as at the date of this report, there is no unwinding of any of the contractual arrangements or failure to unwind when the restrictions that led to the adoption of the contractual arrangements are removed.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions (the "Transactions") entered into by the Group constituted continuing connected transactions under the Listing Rules. Each of the Transactions falls within the ambit of Rule 14A.76(2) of the Listing Rules and is subject to reporting and announcement requirements but exempt from the independent shareholders' approval under Chapter 14A of the Listing Rules. Details of the Transactions subsisted during the year under review are set out as follows:

1. Transaction in relation to the Tenancy Agreements between TQ Digital, NetDragon (Fujian) and Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851")

   On 19 January 2012, each of TQ Digital and NetDragon (Fujian), as tenant, entered into a renewal tenancy agreement with Fuzhou 851 , as landlord, respectively, to renew the tenancy in respect of certain office premises located in Fuzhou City, Fujian Province, the PRC (the "2012 Renewal Tenancy Agreement I" and "2012 Renewal Tenancy Agreement II", respectively). The 2012 Renewal Tenancy Agreement I and the 2012 Renewal Tenancy Agreement II were for a term of three years from 22 January 2012 to 21 January 2015. Fuzhou 851 is a connected person of the Company. As such, the transactions contemplated under the 2012 Renewal Tenancy Agreement I and the 2012 Renewal Tenancy Agreement II (collectively the "2012 Renewal Tenancy Agreements") constituted continuing connected transactions of the Company and should be aggregated under the Listing Rules. The aggregate annual cap for the 2012 Renewal Tenancy Agreements based on the total annual rental payable under the 2012 Renewal Tenancy Agreements for each of the financial years ended 31 December 2012, 2013 and 2014 is RMB6,816,000 (equivalent to approximately HKD8,375,000).

   Further details of the 2012 Renewal Tenancy Agreements are set forth in the announcement of the Company dated 19 January 2012.

   On 22 September 2013, TQ Digital, Fuzhou 851 and NetDragon (Fujian) entered into a novation agreement pursuant to which Fuzhou 851 agreed to change the tenant of the 2012 Renewal Tenancy Agreement I from TQ Digital to NetDragon (Fujian) until the expiry of the 2012 Renewal Tenancy Agreement I on 21 January 2015.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

1. Transaction in relation to the Tenancy Agreements between TQ Digital, NetDragon (Fujian) and Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") (Cont'd)

   On 20 January 2015, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2015 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2012 Renewal Tenancy Agreements for a period from 22 January 2015 to 21 January 2018. Fuzhou 851 is a connected person of the Company. As such, the transactions contemplated under the 2015 Renewal Tenancy Agreement constitute continuing connected transactions of the Company. The aggregate annual cap for the 2015 Renewal Tenancy Agreement based on the total annual rental payable under the 2015 Renewal Tenancy Agreement for each of the financial years ending 31 December 2015, 2016 and 2017 is RMB7,269,744 (equivalent to approximately HKD9,210,000).

   Further details of the 2015 Renewal Tenancy Agreement are set forth in the announcement of the Company dated 20 January 2015.

2. Transaction in relation to Recreation Centre Agreement between TQ Digital and Fuzhou 851

   On 25 April 2012, TQ Digital entered into a renewal recreation centre service agreement (the "2012 Renewal Recreation Centre Agreement") with Fuzhou 851, pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at a recreation centre (the "Recreation Centre") situated at Fuzhou City, Fujian Province, the PRC to the Group and its staff for a period from 25 April 2012 to 24 April 2015 at an annual fee of RMB5,000,000 (equivalent to approximately HKD6,166,000).

   Further details of the 2012 Renewal Recreation Centre Agreement are set forth in the announcement of the Company dated 25 April 2012.

   On 25 September 2013, TQ Digital, Fuzhou 851 and NetDragon (Fujian) entered into a novation agreement pursuant to which Fuzhou 851 agreed to change the service consumer of the 2012 Renewal Recreation Centre Agreement from TQ Digital to NetDragon (Fujian) until the expiry of the 2012 Renewal Recreation Centre Agreement on 24 April 2015.

   On 24 April 2015, NetDragon (Fujian) entered into the renewal recreation centre agreement (the "2015 Renewal Recreation Centre Agreement") with Fuzhou 851, pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at the Recreation Centre to the Group and its staff for a period from 25 April 2015 to 24 April 2018 at an annual fee of RMB7,000,000 (equivalent to approximately HKD8,860,000).

   Further details of the 2015 Renewal Recreation Centre Agreement are set forth in the announcement of the Company dated 24 April 2015.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

3. Transaction in relation to Service Agreement between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang Network Technology Company Limited (福州天亮網絡技術有限公司) ("Fuzhou Tianliang")

On 28 December 2012, NetDragon (Fujian) entered into a new service agreement (the "2012 Service Agreement") with Fuzhou Tianliang, pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2013 to 31 December 2015.

The computer system repair and maintenance service mainly includes the routine system checking and maintenance and technical diagnosis and repair of system hardware, operating systems, database and application software which are vital to the operations of NetDragon (Fujian) as it ensures the smooth operation and upkeep of the computer systems on which the online games software are being run. On the other hand, the after-sales service mainly includes the provision of customer hotline services and assistance in responding to customers' enquiries and complaints in online forums and correspondences which are essential for customer management to enhance customer loyalty.

The aggregate annual caps of the 2012 Service Agreement for each of the three years ended 31 December 2015 are as follows:

	Year ended 31 December 2013	**Year ended 31 December 2014**	**Year ended 31 December 2015**
	RMB	RMB	RMB
Technical maintenance fees	3,977,000	4,326,000	4,569,000
After-sales service charges	18,560,000	20,187,000	21,322,000
	22,537,000	24,513,000	25,891,000

Fuzhou Tianliang is wholly owned by Miss Lin Hang. As disclosed in the announcement dated 27 April 2009, Miss Lin Hang confirmed that she is acting under the instructions of the controlling shareholders of the Company, namely DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan, Eagle World International Inc. and Flowson Company Limietd, regarding her interests in Fuzhou Tianliang. Thus, Fuzhou Tianliang is deemed to be a connected person to the Company.

Further details of the 2012 Service Agreement are set forth in the announcement of the Company dated 28 December 2012.

On 31 December 2015, NetDragon (Fujian) entered into a renewal service agreement (the "Renewal Service Agreement") with Fuzhou Tianliang to renew the 2012 Service Agreement, pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2016 to 31 December 2018.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

3. Transaction in relation to Service Agreement between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang Network Technology Company Limited (福州天亮網絡技術有限公司) ("Fuzhou Tianliang") (Cont'd)

   The aggregate annual caps of the Renewal Service Agreement for each of the three years ending 31 December 2018 are as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ending 31 December 2018
	RMB	RMB	RMB
Technical maintenance fees	3,724,729	4,097,202	4,506,923
After-sales service charges	17,382,071	19,120,278	21,032,305
	21,106,800	23,217,480	25,539,228

   Further details of the Renewal Service Agreement are set forth in the announcement of the Company dated 31 December 2015.

CONFIRMATION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have reviewed the above Transactions conducted during the year ended 31 December 2015 and confirmed that these Transactions:

(i) have been entered into in the ordinary and usual course of the business of the Group;

(ii) have been entered into either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties;

(iii) have been entered into in accordance with the 2012 Renewal Tenancy Agreements, the 2015 Renewal Tenancy Agreement, the 2012 Renewal Recreation Centre Agreement, the 2015 Renewal Recreation Centre Agreement, and the 2012 Service Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded their respective annual caps for the year ended 31 December 2015 as disclosed in the relevant announcements of the Company.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

COMPLIANCE WITH DISCLOSURE REQUIREMENTS

The transactions under the 2012 Renewal Tenancy Agreements, the 2015 Renewal Tenancy Agreement, the 2012 Renewal Recreation Centre Agreement, the 2015 Renewal Recreation Centre Agreement, and the 2012 Service Agreement are also disclosed in note 46 of the Notes to the Consolidated Financial Statements as related party transactions of the Group. For further details of the nature and extent of each of the connected person's interest in each of the Transactions, please refer to the section headed "Corporate Governance Report – Directors' Interest In Transaction, Arrangement or Contract" below. The Company has complied with the applicable requirements of Chapter 14A of the Listing Rules in respect of the continuing connected transactions.

AUDITOR'S LETTER ON DISCLOSED CONTINUING CONNECTED TRANSACTIONS

In addition, the Company has engaged its auditor to report on the ND Structure Contracts, the ND Other Contracts, the Best Assistant Control Documents and the Transactions under the 2012 Renewal Tenancy Agreements, the 2015 Renewal Tenancy Agreement, the 2012 Renewal Recreation Centre Agreement, the 2015 Renewal Recreation Centre Agreement, and the 2012 Service Agreement of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified opinion containing the conclusion in respect of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents which are in compliance with the Rule 14A.56 of the Listing Rules.

Also, the auditor has issued unqualified opinion containing the conclusions in respect of the Transactions under the 2012 Renewal Tenancy Agreements, the 2015 Renewal Tenancy Agreement, the 2012 Renewal Recreation Centre Agreement, the 2015 Renewal Recreation Centre Agreement and the 2012 Service Agreement set out above which are in compliance with the Rule 14A.56 of the Listing Rules.

CONNECTED TRANSACTIONS

Issue of Series A Preferred Shares by Best Assistant

On 6 January 2015, Best Assistant entered into the Series A Agreement with IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (collectively, the "IDG Group"), Vertex Asia Fund Pte. Ltd. ("Vertex"), Alpha Animation and Culture (Hong Kong) Limited ("Alpha Animation"), Catchy Holdings Limited, NetDragon Websoft Inc. (BVI), DJM Holding Ltd. and Creative Sky International Limited (collectively, the "Series A Investors") for the allotment and issue of an aggregate of 180,914,513 Series A Preferred Shares of Best Assistant at an issue price of USD0.2902 per Series A Preferred Share, for a total consideration of USD52,500,000 (equivalent to approximately HKD409.5 million).

CONNECTED TRANSACTIONS (Cont'd)

Issue of Series A Preferred Shares by Best Assistant (Cont'd)

At the closing of the Series A Agreement on 13 February 2015, Best Assistant issued an aggregate of 180,914,513 Series A Preferred Shares to the Series A Investors.

DJM Holding Ltd. is a substantial shareholder of the Company holding approximately 38.39% of the issued share capital of the Company, and is owned as to approximately 95.36% by Mr. Liu Dejian, the chairman and an executive Director. Therefore, DJM Holding Ltd. is a connected person to the Company. Also, as the IDG Group owns approximately 15.74% of the issued share capital of the Company, the IDG Group is a substantial shareholder of the Company and is therefore a connected person of the Company. Accordingly, the subscription of Series A Preferred Shares by each of DJM Holding Ltd. and the IDG Group under the Series A Agreement constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

Details of the issue of the Series A Preferred Shares by Best Assistant are set out in the paragraph headed "Issue of Series A Preferred Shares by Best Assistant" on page 78 below.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

AUDIT COMMITTEE

The Company established the audit committee on 15 October 2007 which comprises three independent non-executive Directors, namely, Chao Guowei, Charles (chairman), Lee Kwan Hung and Liu Sai Keung.

The audit committee is primarily responsible for the review and supervision of the Group's financial reporting process and internal control system. It has met with the external auditors of the Group to review the accounting principles and practices adopted by the Company and the audited annual financial statements of the Group for the year ended 31 December 2015.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Listing Rules and the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2015.

DISCLOSURE OF CHANCE OF INFORMATION OF DIRECTOR UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of information of a Director of the Company is as follows:

Mr. Lee Kwan Hung was appointed as an independent non-executive director of FSE Engineering Holdings Limited, Ten Pao Group Holdings Limited and China Goldjoy Group Limited on 18 November 2015, 23 November 2015 and 27 November 2015 respectively and was resigned as an independent non-executive director of Walker Group Holdings Ltd. on 1 April 2016.

CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the year ended 31 December 2015 as contained in Appendix 14 of the Listing Rules.

A report on the principal corporate governance practices adopted by the Company is set out on pages 80 to 92.

COMPETITION AND CONFLICT OF INTERESTS

Save as disclosed in the Listing Document, none of the Director nor any of their respective associates, as defined in the Listing Rules, has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at 31 December 2015 and as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2015, the Company bought back a total of 1,870,000 shares on the Stock Exchange at an aggregate consideration of HKD25,323,860 before expenses. The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Details of the share buy-backs are as follows:

Month of purchase	Number of ordinary shares bought back	Price per share		Aggregate consideration paid
		Highest	Lowest	
		HKD	HKD	HKD
January 2015	1,870,000	13.80	12.90	25,323,860

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2015.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained the prescribed public float under the Listing Rules.

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the "Main Board Share Option Scheme") to replace the existing share option scheme. Details of the share options outstanding and movement during the year ended 31 December 2015 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at 1 January 2015	Number of share options Granted	Exercised	Lapsed	As at 31 December 2015
Executive Directors							
Liu Dejian	22.07.2011	4.60	156,200	–	71,000	–	85,200
Liu Luyuan	07.12.2009	4.33	1,400,000	–	–	–	1,400,000
	22.07.2011	4.60	284,000	–	–	–	284,000
Zheng Hui	22.07.2011	4.60	156,200	–	71,000	–	85,200
Chen Hongzhan	22.07.2011	4.60	156,200	–	71,000	–	85,200
Independent non-executive Directors							
Chao Guowei, Charles	22.07.2011	4.60	200,000	–	200,000	–	0
	23.04.2012	5.74	300,000	–	300,000	–	0
	04.12.2013	15.72	318,000	–	79,500	–	238,500
Lee Kwan Hung	22.07.2011	4.60	200,000	–	200,000	–	0
	23.04.2012	5.74	200,000	–	200,000	–	0
	04.12.2013	15.72	318,000	–	–	–	318,000
Liu Sai Keung, Thomas	22.07.2011	4.60	200,000	–	–	–	200,000
	23.04.2012	5.74	300,000	–	–	–	300,000
	04.12.2013	15.72	318,000	–	–	–	318,000
Others							
Employees	07.12.2009	4.33	80,000	–	80,000	–	0
	28.04.2011	4.80	5,562,594	–	2,394,715	327,150	2,840,729
	22.07.2011	4.60	277,238	–	144,563	17,100	115,575
	23.04.2012	5.74	1,171,217	–	308,205	100,150	762,862
	06.07.2012	6.53	473,238	–	110,000	–	363,238
	12.09.2012	7.20	53,250	–	3,000	–	50,250
	16.01.2013	11.164	575,350	–	112,775	35,625	426,950
	25.04.2014	14.66	556,000	–	–	–	556,000
	11.05.2015	27.75	–	251,000	37,000	–	214,000
Total			13,255,487	251,000	4,382,758	480,025	8,643,704

Notes:

1. On 11 May 2015, 251,000 share options were granted to the employees of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 11 May 2015 (the trading day on the grant of the share options) was HKD27.75.

2. During the year under review, 1,192,500 share options were exercised by Directors of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Main Board Share Option Scheme disclosed above and set out in note 39 of Notes to the Consolidated Financial Statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

SHARE AWARD SCHEME

The Company

On 2 September 2008 (the "NetDragon Adoption Date"), the Board approved and adopted the share award scheme (the "NetDragon Share Award Scheme") in which selected employees of the Group are entitled to participate. Unless early terminated by the Board, the NetDragon Share Award Scheme shall be valid and effective for a term of ten years commencing on the NetDragon Adoption Date. The Board shall not grant any award of shares if the nominal value of awards in aggregate granted by the Board under the NetDragon Share Award Scheme is over 10% of the issued capital of the Company from time to time.

Pursuant to the rules of the NetDragon Share Award Scheme, the Group has signed an agreement with Bank of Communications Trustee Limited (the "Trustee"), for the purpose of administering the NetDragon Share Award Scheme and holding the awarded shares before they are vested.

On 31 December 2015, 475,451 awarded shares granted to a number of selected participants were outstanding. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents duly signed by the Trustee and the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation letter from the Company that all vesting conditions having been fulfilled.

Among the 237,725 vested awarded shares in 2015, a total of 118,212 awarded shares were vested by the Directors.

Subject to the acceptance by the relevant selected employees, such transferred awarded shares may be held by the selected employees in their own names or such nominees, including any trustees, as designated by the selected employees.

As at 31 December 2015, details of the awarded shares under the Share Award Scheme were as follows:

Average price per share (HKD) *(Note)*	**As at 1 January 2015**	**Number of shares vested during the year**	**Number of granted shares outstanding during the year**	**As at 31 December 2015**
5.07	952,203	(317,400)	634,803	634,803

Note: These shares were purchased by the Trustee of the Share Award Scheme at an average price of HKD5.07 per share.

SHARE AWARD SCHEME (Cont'd)

Best Assistant Education Online Limited ("Best Assistant")

On 7 August 2012, Best Assistant adopted a share award scheme as amended on 13 February 2015 (the "Best Assistant Share Award Scheme") in which selected participants include senior management employees of Best Assistant and/or its subsidiaries ("Best Assistant Group"), consultants to Best Assistant Group employed by any member of the Company, its associated companies or their subsidiaries (excluding Best Assistant Group) and any person who contributes to the development of Best Assistant Group which has been certified and determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

Subject to early termination, the Best Assistant Share Award Scheme shall be valid and effective for a term of ten years commencing on 7 August 2012. Best Assistant may also transfer shares awarded under the Best Assistant Share Award Scheme whether vested or unvested to other trusts and if there is a change in control of Best Assistant, all awarded shares shall immediately be vested. The board of directors of Best Assistant may also waive any vesting conditions with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha. The maximum number of shares which may be granted to the participants under the Best Assistant Share Award Scheme shall not exceed ten percent (10%) of the total issued share capital of Best Assistant from time to time or such number of shares as determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

Pursuant to the rules of the Best Assistant Share Award Scheme, Best Assistant has signed an agreement with the Trustee, for the purpose of administering the Best Assistant Share Award Scheme and holding the awarded shares before they are vested.

Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) confirmation from Best Assistant that all vesting conditions having been fulfilled, the awarded shares will be transferred to the selected participants at nil consideration upon vesting.

As at 31 December 2015, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into the Series A Agreement with IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (collectively, the "IDG Group"), Vertex Asia Fund Pte. Ltd. ("Vertex"), Alpha Animation and Culture (Hong Kong) Limited ("Alpha Animation"), Catchy Holdings Limited, NetDragon Websoft Inc. (BVI), DJM Holding Ltd. and Creative Sky International Limited (collectively, the "Series A Investors") for the allotment and issue of an aggregate of 180,914,513 Series A Preferred Shares of Best Assistant at an issue price of USD0.2902 per Series A Preferred Share for a total consideration of USD52,500,000 (equivalent to approximately HKD409.5 million). The Series A Preferred Shares represent 100% of all issued preferred shares of Best Assistant and account for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares. The obligations of the Series A Investors to purchase the Series A Preferred Shares at the closing was subject to the fulfillment on or before the closing of certain conditions, unless waived in writing by the Series A Investors at the closing, among other things, that Best Assistant shall and the covenantors shall cause Best Assistant to effect an amendment of the Best Assistant Share Award Scheme to include the affirmative vote of at least one of the Investor Directors (i.e. the directors of Best Assistant appointed by IDG Group, Vertex and Alpha Animation) in all consents required from the Board.

As the Group was optimistic about the rapidly expanding online education business in the PRC, the executive Directors considered that it was then the opportunity for the Group to actively expand the online education business of Best Assistant group in the PRC. Also, the Directors are of the view that the transactions contemplated under the Series A Agreement could enlarge the shareholding base of Best Assistant, build on the Group's reputation and recognition among its strategic partners and boost the morale of the staff of the Group. Pursuant to the Series A Agreement, the consideration of the allotment and issue of the Series A Preferred Shares was planned to be used for the registered capital of Fujian Tianquan, business expansion, capital expenditures and general working capital of Best Assistant group in accordance with the budget and business plan as approved by the Series A Investors.

On 10 February 2015, Fujian Tianquan Education Technology Limited ("Fujian Tianquan"), Fujian Huayu Education Technology Limited ("Fujian Huayu") and Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") have entered into a cooperation framework agreement, a technical support service agreement, an equity interest pledge agreement, an exclusive acquisition rights agreement and a proxy agreement (collectively, the "Control Documents"). Pursuant to the Specific Waiver granted by the Stock Exchange to the Company at around the time of Listing, the framework of the ND Structure Contracts may be cloned in relation to any existing or new wholly foreign owned enterprise, operating company or FITE that the Company might wish to establish, without obtaining the approval of the Shareholders on terms that the protections for the Shareholders described in the Specific Waiver will apply.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT (Cont'd)

The Control Documents are cloned from the ND Structure Contracts such that Fujian Tianquan will receive service fees from Fujian Huayu, and the total amount of which shall be determined by the Best Assistant Management Committee with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements under the guiding principles that (i) Fujian Huayu shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000.

The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of Fujian Huayu will be enjoyed by Fujian Tianquan and will give flexibility to the Best Assistant Management Committee to implement the Control Documents and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

As the Control Documents are cloned from the ND Structure Contracts, transactions under the Control Documents are exempt from Shareholders' approval.

The closing has taken place on 13 February 2015 in accordance with the terms of the Series A Agreement. On 13 February 2015, Best Assistant has issued an aggregate of 180,914,513 Series A Preferred Shares to the Series A Investors.

Further details of the issue of Series A Preferred Shares are set out in the announcements of the Company dated 6 January 2015, 10 February 2015 and 13 February 2015.

As such, the Company's beneficial shareholding in Best Assistant will be reduced from 86.15% to approximately 77.96%, assuming all of the Series A Preferred Shares are fully converted.

AUDITOR

The consolidated financial statements for the year ended 31 December 2015 have been audited by Deloitte Touche Tohmatsu ("Deloitte"), the auditor of the Company. A resolution will be submitted in the AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board
Liu Dejian
Chairman

Hong Kong, 30 March 2016

The Directors believe that good corporate governance practices serve as an effective risk management for the Company and hence, the shareholders of the Company will benefit from the high standard of corporate governance.

Throughout the year, the Company has complied with the provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established its code of conduct regarding securities transaction by Directors, senior management and relevant employees on terms no less exacting than the required standard indicated by the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the year under review.

THE BOARD

The Board is composed of five executive Directors (including the Chairman and the Chief Executive Officer of the Company) and four non-executive Directors (of whom three are independent non-executive Directors), whose biographical details are set out in "Directors and Senior Management" section on pages 36 to 44. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relevant relationship to one another.

Each of the non-executive and independent non-executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commenced on 24 June 2008 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the current term unless and until terminated in accordance with the terms of the appointment letter or by either party thereto giving to the other not less than three months' prior written notice.

Duties of the Board including delegation to management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the committees and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the audit committee, the remuneration committee, the nomination committee and the share award scheme committee. Further details of these committees are set out in this report.

Duties of the Board include:

(i) ensuring, maintaining and overseeing the internal control systems of the Group;

(ii) setting the objectives of management of the Group;

(iii) monitoring the performance of management of the Group;

(iv) ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and

(v) overseeing the management of NetDragon's relationships with stakeholders, such as, shareholders, customers, the community, interest groups, employees and others who have a legitimate interest in the responsible conduct of the Group's business.

During the year ended 31 December 2015, the Board held four meetings and the attendance of each of the Directors at Board, committee and general meetings held in 2015 is set out below:

Directors	**Full Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Share Award Scheme Committee***	**Annual General Meeting**
Executive Directors						
Liu Dejian (Chairman)	4/4	N/A	N/A	N/A	N/A	0/1
Liu Luyuan (Chief Executive Officer)	4/4	N/A	N/A	N/A	N/A	0/1
Zheng Hui	4/4	N/A	N/A	N/A	N/A	0/1
Chen Hongzhan	4/4	N/A	N/A	N/A	N/A	0/1
Leung Lim Kin Simon *(Appointed on 30 October 2015)*	1/1	N/A	N/A	N/A	N/A	1/1
Non-executive Director						
Lin Dongliang	3/4	N/A	N/A	N/A	N/A	0/1
Independent non-executive Directors						
Chao Guowei, Charles	2/4	4/4	1/1	2/2	N/A	0/1
Lee Kwan Hung	4/4	4/4	1/1	2/2	N/A	1/1
Liu Sai Keung, Thomas	4/4	4/4	1/1	2/2	N/A	1/1

* The Share Award Scheme Committee of the Company did not hold any meeting during the year under review.

The CG Code provision E.1.2 requires that the Chairman of the Board should attend the annual general meeting of the Company ("AGM") and should invite the Chairman of the audit, remuneration, nomination and any other committee (as appropriate) to attend the AGM and in their absence, he should invite another member of the committee or failing this his duly appointed delegate(s) to attend. These persons should be available to answer questions at the AGM. Mr. Liu Dejian, the Chairman of the Board, could not attend the AGM of the Company held on 21 May 2015 as he had another engagement which was important to the Company's business. Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas both are members of the audit committee, attended the AGM held on 21 May 2015. Due to other commitment, the chairman of the audit committee, Mr. Chao Guowei, Charles did not attend the AGM of the Company held on 21 May 2015.

Board and committee minutes are recorded in appropriate detail. Draft minutes are circulated to Directors for comments within reasonable time after each meeting and the final version is open for Directors' inspection.

The Directors are entitled, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

In full compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional accounting qualifications. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the shareholders of the Company.

In addition, the Company has received from each of the independent non-executive Directors an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. These Directors' independence has been verified. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors are also provided with monthly updates which contain periodic financials with summaries and covering highlights of the Company's major businesses of key events, outlook and business related matters of the Group. The monthly updates present a balanced and understandable assessment of the Company's performance and position. The non-executive Director and independent non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT

With reference to the ND Structure Contracts entered into among TQ Digital, TQ Online and NetDragon (Fujian), the executive Directors, Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, are interested in an aggregate of 98.86% in NetDragon (Fujian). Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts would technically constitute connected transactions. Details for the ND Structure Contracts and the ND Other Contracts are set out in pages 56 to 60 in the section of "Report of the Directors" under the paragraphs of "ND Structure Contracts".

With reference to the Best Assistant Control Documents entered into among Fujian Tianquan, an indirect wholly owned subsidiary of Best Assistant (Cayman), Fujian Huayu and NetDragon (Fujian), NetDragon (Fujian) and Fujian Huayu (being a subsidiary of NetDragon (Fujian)) are technically associates of Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company or its subsidiaries, except Best Assistant (Cayman) and subsidiaries of Best Assistant (Cayman) (the "Best Assistant Group Companies") on one hand and Best Assistant (Cayman) or Best Assistant Group Companies on the other hand, including the Best Assistant Control Documents would technically constitute connected transactions. Details for the Best Assistant Control Documents are set out in pages 61 to 65 in the section of "Report of the Directors" under the paragraphs of "Best Assistant Control Documents".

With reference to the continuing connected transactions for the 2012 Renewal Tenancy Agreements and the 2015 Renewal Tenancy Agreement entered into between TQ Digital or NetDragon (Fujian) on one hand and Fuzhou 851 on the other and with reference to the continuing connected transactions for the 2012 Renewal Recreation Centre Agreement and the 2015 Renewal Recreation Centre Agreement entered into between TQ Digital or NetDragon (Fujian) on one hand and Fuzhou 851 on the other hand, Fuzhou 851 is owned as to approximately 12.63% and 87.37% by DJM Holding Ltd., a substantial shareholder of the Company and Mr. Liu Dejian, an executive Director, respectively. Thus, Fuzhou 851 is deemed to be a connected person to the Company.

With reference to the continuing connected transactions for the 2012 Service Agreement entered into between NetDragon (Fujian) and Fuzhou Tianliang, the original shareholders of Fuzhou Tianliang have been changed to Miss Lin Hang, who confirmed that she is acting under the instructions of the controlling shareholders of the Company, namely DJM Holding Ltd., Fitter Property Inc., Richmedia Holdings Limited, Liu Dejian, Zheng Hui, Liu Luyuan, Eagle World International Inc. and Flowson Company Limited, regarding her interests in Fuzhou Tianliang (with reference to the announcement of the Company on 27 April 2009). Thus, Fuzhou Tianliang is deemed to be a connected person to the Company.

With reference to the Series A Agreement entered into, among others, Best Assistant (Cayman) and the Series A Investors for the allotment and issue of an aggregate of 180,914,513 Series A Preferred Shares for a total consideration of USD52,500,000 (equivalent to approximately HKD409.5 million), DJM Holding Ltd. was allotted 2,987,605 Series A Preferred Shares. DJM Holding Ltd. is a substantial shareholder of the Company and is owned as to approximately 95.36% by Mr. Liu Dejian, the chairman and an executive Director. Thus, DJM Holding Ltd. is considered as a connected person to the Company.

Details for the continuing connected transactions are set out in pages 68 to 72 in the section of "Report of the Directors" under the paragraphs of "Continuing Connected Transactions".

Save as the above, none of the Directors is materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance of the Company during the year ended 31 December 2015 or as at the end of the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the chairman and the chief executive officer are held by Mr. Liu Dejian and Mr. Liu Luyuan, respectively.

In order to reinforce their respective independence, accountability and responsibility, the role of the chairman is separated from that of the chief executive officer. The chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice and ensuring the effectiveness of the Board. With the support of the senior management, the chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The chief executive officer focuses on managing the Company and its subsidiaries, developing and implementing objectives, policies and strategies approved and delegated by the Board. The chief executive officer is in charge of the Group's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

The Audit Committee reviews the quarterly, interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continuing connected transactions and connected transactions relating to ND Structure Contracts, ND Other Contracts and Best Assistant Control Documents of the Group.

The Audit Committee held four meetings during the year ended 31 December 2015. The major work performed by the Audit Committee in respect of the year ended 31 December 2015 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the first quarterly results announcement for the three months ended 31 March 2015, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2015, reviewing the third quarterly results announcement for the nine months ended 30 September 2015, reviewing the audited financial statements and final results announcement for the year ended 31 December 2015, reviewing the work of the Group's internal audit and assessing the effectiveness of the Group's systems of risk management, corporate governance and cost control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, and training programmes and budget.

Our Audit Committee comprises three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas. Chao Guowei, Charles is the chairman of the Audit Committee.

The written terms of reference are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2015 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

INTERNAL CONTROL

The Board recognises its responsibility for maintaining a sound and effective system of internal control to safeguard the shareholders' investment and the Company's assets, and for reviewing its effectiveness. The Board has entrusted the Audit Committee and professional external consultant with the responsibility to review the internal control systems of the Group, which include financial, operational and compliance controls and risk management functions.

During the year under review, the Board has conducted review on the effectiveness of the internal control system of the Group through discussion with the audit committee on audit findings and control issues. These procedures provide reasonable, but not absolute, assurance against material errors, losses and fraud, and manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The Board has also considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

The Board, based on the review of the Audit Committee, is satisfied that the Group has maintained sound and effective internal control systems for the year ended 31 December 2015.

REMUNERATION COMMITTEE

The Company established the remuneration committee (the "Remuneration Committee") on 15 October 2007 which adopts model of determining the remuneration packages for all Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by the Remuneration Committee to ensure that levels of their remuneration and compensation are appropriate.

During the year ended 31 December 2015, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company as well as the remuneration of senior management staff. The Remuneration Committee also reviews the remuneration of the Directors with reference to the remuneration level of directors of comparable listed companies.

Our Remuneration Committee comprises three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas. Lee Kwan Hung is the chairman of the Remuneration Committee.

The written terms of reference are posted on the websites of the Stock Exchange and the Company.

EMPLOYEE AND EMOLUMENT POLICY

The emolument policy of the employees of the Company is set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the senior management of the Company are recommended by the Remuneration Committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The emoluments of the Directors are recommended by the Remuneration Committee and are decided by the Board, as authorised by shareholders at the AGM.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision. The Nomination Committee follows a formal, fair and transparent procedure for the appointment of new Directors to the Board. The Nomination Committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates to become Board members and select or make recommendations to the Board on the selection of candidates nominated for directorships and succession planning for directors. During this process, the Nomination Committee considers candidates based on merit and with due regard to the benefits of diversity on the Board.

During the financial year ended 31 December 2015, two meetings of the Nomination Committee of the Company were held. A meeting was held to review the structure, size and composition of the Board and assessed the independence of the three independent non-executive Directors of the Company. The Nomination Committee is of the view that the current Board demonstrates a balanced composition with sufficient independence element. Another meeting was held on 30 October 2015. At this meeting, the Committee considered and approved the proposed nomination of Dr. Leung Lim Kin Simon as an additional executive Director of the Company. All members of the Nomination Committee were present at the meeting.

Our Nomination Committee comprises three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas. Liu Sai Keung, Thomas is the chairman of the Nomination Committee.

Potential new directors are selected on the basis of their qualifications, skill and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

On 30 August 2013, the Board adopted the board membership diversity policy for maintaining the appropriate skills and experience required by the Company's business and a diversity of perspectives on the Board.

The following is a summary of the board diversity policy:

- reviewing and assessing the composition of the Board to maintain an appropriate range and balance of talents, skills, experience and background on the Board;
- recommending candidates for appointment to the Board by considering merit against objective criteria and with due regard for the benefits of diversity on the Board; and
- conducting the annual review of the effectiveness of the Board by considering the balance of talents, skills, experience, independence and knowledge of the Board and the diversity of the Board.

The achievement of these criteria will be measurable on an objective review, which can enhance the diversity of background and experience of individual directors and the effectiveness of the Board in protecting shareholders' interests.

The written terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company.

ND MANAGEMENT COMMITTEE

The Company established the ND Management Committee pursuant to the ND Structure Contracts to oversee the business and operations of NetDragon (Fujian).

The ND Management Committee comprises four members, of which each of TQ Digital and NetDragon (Fujian) is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the ND Management Committee may only be removed by the party who originally appointed such member. As a general requirement, the members appointed by NetDragon (Fujian) must also be the equity holders of NetDragon (Fujian) as well as directors of TQ Digital. In the case where the number of members who concurrently act as a director of both TQ Digital and NetDragon (Fujian) is less than two, TQ Digital is entitled to appoint an additional member of the ND Management Committee. As such, under the ND Structure Contracts, the ND Management Committee is allowed to have a maximum of five members.

Currently, the ND Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by NetDragon (Fujian), and Zheng Hui and Chen Hongzhan who were appointed by TQ Digital. The directors of NetDragon (Fujian) comprise Liu Dejian, Liu Luyuan, Zheng Hui, being executive Directors, Wang Song, being a member of our senior management and Lin Lizhi. Further details of the above members of the ND Management Committee are set out in the section headed "Directors and Senior Management" in this annual report.

BEST ASSISTANT MANAGEMENT COMMITTEE

The Best Assistant Management Committee was established on 3 March 2015 pursuant to the Best Assistant Control Documents to oversee the business and operations of Fujian Huayu. Through its control over Fujian Huayu, the Best Assistant Management Committee is also able to oversee the business and operations of the subsidiaries of Fujian Huayu. The Best Assistant Management Committee comprises four members, of which each of Fujian Tianquan and Fujian Huayu is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the Best Assistant Management Committee may only be removed by the party who originally appointed such member. In the case where the number of members who concurrently act as a director of both Fujian Tianquan and Fujian Huayu is less than two, Fujian Tianquan is entitled to appoint an additional member of the Best Assistant Management Committee. As such, under the Best Assistant Control Documents, the Best Assistant Management Committee is allowed to have a maximum of five members.

Currently, the Best Assistant Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by Fujian Huayu, and Zheng Hui and Wang Song, who were appointed by Fujian Tianquan. The directors of Fujian Huayu comprise Liu Dejian, Liu Luyuan, Zheng Hui, Chen Hongzhan, being executive Directors, and Wang Song. Zheng Hui is also the general manager of Fujian Huayu.

SHARE AWARD SCHEME COMMITTEE

In recognition of the contribution of employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group, the Company established a share award scheme committee on 2 September 2008 for the purpose of administration of the Share Award Scheme.

Our share award scheme committee comprises two independent non-executive Directors, namely Lee Kwan Hung and Liu Sai Keung, Thomas and members of the senior management, namely Yam Kwok Hei, Benjamin and Lau Hak Kin.

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. The Directors confirmed that they have complied with the Code Provision A.6.5 of the CG Code effective on 1 April 2012 on Directors' training. In 2015, all Directors have participated in continuous professional development by reading materials/in house briefing on regulatory and corporate governance matters to develop and refresh their knowledge.

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's external auditors, is set out as follows:

	RMB'000
Audit services	2,206
Non-audit services	5,958
	8,164

The above non-audit services include professional advisory fees relating to the quarterly review services, accounting services and internal control review.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors acknowledge such responsibilities. The Directors, having made appropriate enquires, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statements of the Company's external auditors regarding their responsibilities on the financial statements are set out in the Independent Auditor's Report on pages 93 to 94.

COMPANY SECRETARY

Mr. Lau Hak Kin, Financial Controller and Head of Compliance and Corporate Affairs of the Company, has been appointed by the Company as the company secretary. He is also the primary contact person of the Company. During the year ended 31 December 2015, Mr. Lau Hak Kin has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company recognizes the importance to maintain an on-going dialogue with the shareholders. The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors. A shareholders' communication policy, which is reviewed by the Board on regular basis, had been established to promote effective engagement with shareholders, both individual and institutional, investors and other stakeholders, giving them ready access to balanced and understandable information about the Company and corporate proposals and making it easy for Shareholders to participate in general meetings.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, according to article 58 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The provisions for a shareholder to propose a person for election as a director of the Company are laid down in article 88 of the Company's Articles of Association. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar and transfer office: Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

For other enquires or proposals to the Board, Shareholders may send written enquiries to the Company by fax: (852) 2850 7066 or mail to Units 2001-05 & 11, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

SHAREHOLDERS RELATIONS

The Group is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The Company also updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company has provided an effective communication platform to the public and the shareholders.

The market capitalization of the Company as at 31 December 2015 was approximately HKD9,843.9 million (entire issued share capital: 497,674,020 shares) at closing market price: HKD21.45 per share. The public float is around 39%.

There has not been any significant change in the Company's constitutional documents during the year ended 31 December 2015.

The AGM will be held at Plaza Meeting Room, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 19 May 2016.

Deloitte.
德勤

TO THE MEMBERS OF NETDRAGON WEBSOFT INC.
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of NetDragon Websoft Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 95 to 204, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue	5	**1,272,197**	962,817
Cost of revenue		**(314,161)**	(102,844)
Gross profit		**958,036**	859,973
Other income and gains	5	**187,927**	157,101
Selling and marketing expenses		**(206,778)**	(152,495)
Administrative expenses		**(520,104)**	(326,934)
Development costs		**(446,229)**	(249,260)
Other expenses		**(24,092)**	(34,027)
Share of losses of associates		**(9,912)**	(2,354)
Operating (loss) profit		**(61,152)**	252,004
Interest income on pledged bank deposits		**6,018**	2,794
Exchange loss on pledged bank deposits, secured bank borrowings and convertible preferred shares		**(15,504)**	(5,081)
Net (loss) gain on derivative financial instruments		**(2,914)**	6,817
Net gain on disposal of held-for-trading investments		**876**	—
Net loss on held-for-trading investments		**(9,144)**	(17,304)
Finance costs	6	**(5,431)**	(3,212)
(Loss) profit before taxation		**(87,251)**	236,018
Taxation	8	**(100,675)**	(64,197)
(Loss) profit for the year	9	**(187,926)**	171,821
Other comprehensive income (expense) for the year, net of income tax:			
Gain on revaluation of properties that will not be reclassified subsequently to profit or loss		**21,776**	—
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss		**12,208**	(40)
Total comprehensive (expense) income for the year		**(153,942)**	171,781

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	NOTE	2015 RMB'000	2014 RMB'000
(Loss) profit for the year attributable to:			
– Owners of the Company		**(142,979)**	176,681
– Non-controlling interests		**(44,947)**	(4,860)
		(187,926)	171,821
Total comprehensive (expense) income attributable to:			
– Owners of the Company		**(109,872)**	176,641
– Non-controlling interests		**(44,070)**	(4,860)
		(153,942)	171,781
		RMB cents	RMB cents
(Loss) earnings per share	12		
– Basic		**(28.85)**	34.77
– Diluted		**(28.85)**	34.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	13	**1,246,117**	822,704
Prepaid lease payments	14	**438,677**	378,673
Investment properties	15	**55,377**	–
Intangible assets	16	**953,950**	141,254
Interests in associates	17	**18,883**	28,795
Available-for-sale investments	18	**5,000**	5,000
Loan receivables	19	**23,081**	18,327
Trade receivables	23	**18,112**	–
Deposits made for acquisition of property, plant and equipment		**18,302**	35,967
Goodwill	20	**334,839**	40,013
Deferred tax assets	22	**3,611**	54
		3,115,949	1,470,787
Current assets			
Inventories	25	**117,584**	–
Prepaid lease payments	14	**2,733**	2,708
Loan receivables	19	**3,397**	1,578
Trade receivables	23	**234,733**	51,072
Amounts due from customers for contract work	24	**4,339**	7,252
Other receivables, prepayments and deposits	26	**115,918**	210,098
Amounts due from related companies	27	**1,704**	1,704
Amounts due from associates	28	**11,204**	367
Tax recoverable		**11,159**	–
Held-for-trading investments	29	**170,640**	211,584
Pledged bank deposit	30	**–**	236,805
Bank deposits	30	**583,091**	1,999,644
Bank balances and cash	30	**1,126,957**	1,036,788
		2,383,459	3,759,600
Assets classified as held for sale	31	**2,690**	–
		2,386,149	3,759,600

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Current liabilities			
Trade and other payables	32	**507,592**	209,214
Amounts due to customers for contract work	24	**993**	424
Provisions	33	**29,373**	—
Deferred income		**85,039**	25,595
Amount due to a related company	34	**2,254**	1,891
Amounts due to associates	34	**9,632**	8
Convertible preferred shares	36	**278,499**	—
Secured bank borrowings	35	**25,142**	236,805
Income tax payable		**95,194**	137,648
		1,033,718	611,585
Net current assets		**1,352,431**	3,148,015
Total assets less current liabilities		**4,468,380**	4,618,802
Non-current liabilities			
Other payables	37	**12,723**	1,283
Provisions	33	**2,027**	—
Deferred tax liabilities	22	**149,993**	116
		164,743	1,399
Net assets		**4,303,637**	4,617,403
Capital and reserves			
Share capital	38	**36,726**	36,943
Share premium and reserves		**4,257,120**	4,529,971
Equity attributable to owners of the Company		**4,293,846**	4,566,914
Non-controlling interests		**9,791**	50,489
		4,303,637	4,617,403

The consolidated financial statements on pages 95 to 204 were approved and authorised for issue by the Board of Directors on 30 March 2016 and are signed on its behalf by:

Liu Dejian
Director

Zheng Hui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company														
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000 (Note a)	Other reserve RMB'000 (Note b)	Capital reserve RMB'000 (Note c)	Statutory reserves RMB'000 (Note d)	Dividend reserve RMB'000	Revaluation reserve RMB'000	Treasury share reserve RMB'000 (Note e)	Employee share-based compensation reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014	37,664	1,036,480	4,139	–	10,045	202,885	79,977	673	(5,780)	29,777	(59,309)	3,278,591	4,615,142	7,736	4,622,878
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	–	–	176,681	176,681	(4,860)	171,821
Other comprehensive expense for the year	–	–	–	–	–	–	–	–	–	–	(40)	–	(40)	–	(40)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	–	–	(40)	176,681	176,641	(4,860)	171,781
Repurchase and cancellation of shares	(1,084)	(152,308)	1,084	–	–	–	–	–	–	–	–	(1,084)	(153,392)	–	(153,392)
Shares issued upon exercise of share options	201	18,083	–	–	–	–	–	–	–	(5,820)	–	–	12,464	–	12,464
Shares issued upon acquisition of subsidiaries	162	28,031	–	–	–	–	–	–	–	–	–	–	28,193	–	28,193
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	10,718	–	–	10,718	–	10,718
Return of capital to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,990)	(3,990)
Contributions from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	90,300	90,300
Deemed disposal to non-controlling shareholder	–	–	–	38,755	–	–	–	–	–	–	–	–	38,755	(38,755)	–
Final dividend for 2013 paid	–	–	–	–	–	–	(79,977)	–	–	–	–	(353)	(80,330)	–	(80,330)
Interim dividend for 2014 declared and paid	–	–	–	–	–	–	–	–	–	–	–	(81,277)	(81,277)	–	(81,277)
Final dividend for 2014 proposed	–	–	–	–	–	–	78,865	–	–	–	–	(78,865)	–	–	–
Acquisition of non-wholly owned subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	58	58
Awarded shares vested to employees	–	–	–	–	–	–	–	–	1,445	(2,803)	–	1,358	–	–	–
Transfers	–	–	–	–	–	50,814	–	–	–	–	–	(50,814)	–	–	–
	(721)	(106,194)	1,084	38,755	–	50,814	(1,112)	–	1,445	2,095	–	(211,035)	(224,869)	47,613	(177,256)
At 31 December 2014	36,943	930,286	5,223	38,755	10,045	253,699	78,865	673	(4,335)	31,872	(59,349)	3,244,237	4,566,914	50,489	4,617,403
Loss for the year	–	–	–	–	–	–	–	–	–	–	–	(142,979)	(142,979)	(44,947)	(187,926)
Other comprehensive income for the year	–	–	–	–	–	–	–	21,776	–	–	11,331	–	33,107	877	33,984
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	21,776	–	–	11,331	(142,979)	(109,872)	(44,070)	(153,942)
Repurchase and cancellation of shares	(486)	(70,095)	486	–	–	–	–	–	–	–	–	(486)	(70,581)	–	(70,581)
Shares issued upon exercise of share options	269	27,149	–	–	–	–	–	–	–	(8,268)	–	–	19,150	–	19,150
Contributions from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	1,211	1,211
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	5,167	–	–	5,167	–	5,167
Awarded shares vested to employees	–	–	–	–	–	–	–	–	1,082	(2,178)	–	1,096	–	–	–
Adjustment arising from transfer of associates to a non-wholly owned subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	3,353	3,353
Deemed disposal to non-controlling shareholder	–	–	–	824	–	–	–	–	–	–	–	–	824	(824)	–
Dividend paid to non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(239)	(239)
Acquisition of additional equity interests from non-controlling interests	–	–	–	(115)	–	–	–	–	–	–	–	–	(115)	(113)	(228)
Transfer upon deregistration of a subsidiary	–	–	–	–	(10)	(69)	–	–	–	–	–	69	(10)	(16)	(26)
Final dividend for 2014 paid	–	–	–	–	–	–	(78,865)	–	–	–	–	480	(78,385)	–	(78,385)
Interim dividend for 2015 declared and paid	–	–	–	–	–	–	–	–	–	–	–	(39,246)	(39,246)	–	(39,246)
Final dividend for 2015 proposed	–	–	–	–	–	–	49,767	–	–	–	–	(49,767)	–	–	–
Transfers	–	–	–	–	–	7,084	–	–	–	–	–	(7,084)	–	–	–
	(217)	(42,946)	486	709	(10)	7,015	(29,098)	–	1,082	(5,279)	–	(94,938)	(163,196)	3,372	(159,824)
At 31 December 2015	36,726	887,340	5,709	39,464	10,035	260,714	49,767	22,449	(3,253)	26,593	(48,018)	3,006,320	4,293,846	9,791	4,303,637

Notes:

a. The amount represented the nominal value of the shares repurchased by the Company.

b. In 2015, other reserve represented the deemed disposal of subsidiaries and acquisition of additional equity interest of subsidiaries in which control is still retained. In 2014, other reserve represented the deemed disposal of subsidiaries in which control is still retained.

c. Capital reserve arose on combining the results and financial positions of the companies of 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) ("NetDragon (Fujian)") and 上海天坤數碼科技有限公司 (Shanghai Tiankun Digital Technology Limited) ("NetDragon (Shanghai)") using the principles of merger accounting. NetDragon (Shanghai) was deregistered in 2015.

d. As stipulated by the relevant laws and regulations for enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain statutory reserves. Appropriation to such reserve is made out of profit after taxation as reflected in the statutory financial statements of each of the PRC subsidiaries while the amounts and allocation basis are decided by its board of directors annually. The statutory reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

e. Treasury share reserve comprises the consideration paid for the treasury shares held for the share award scheme, including any attributable incremental costs for the purchase of shares under the share award scheme.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	NOTE	2015 RMB'000	2014 RMB'000
OPERATING ACTIVITIES			
(Loss) profit for the year		**(187,926)**	171,821
Adjustments for:			
Taxation		**100,675**	64,197
Allowances on trade receivables		**1,911**	4,509
Amounts written off as uncollectable		**4**	5,633
Amortisation of intangible assets		**35,437**	7,448
Depreciation of property, plant and equipment		**113,678**	70,002
Finance costs		**5,431**	3,212
Net gain on disposal of held-for-trading investments		**(876)**	–
Loss on deemed disposal of associates		**3,353**	–
Gain on disposal of a subsidiary before taxation	47	**–**	(98)
Gain on bargain purchase from acquisition of a subsidiary		**–**	(59)
Loss on disposal of property, plant and equipment		**667**	667
Interest income		**(70,017)**	(96,257)
Net loss (gain) on derivative financial instruments		**2,914**	(6,817)
Net loss on held-for-trading investments		**9,144**	17,304
Release of prepaid lease payments		**2,812**	2,308
Share-based payments expense		**11,337**	26,179
Share of losses of associates		**9,912**	2,354
Operating cash flows before movements in working capital		**38,456**	272,403
Increase in inventories		**(6,255)**	–
Increase in trade receivables		**(18,925)**	(14,538)
Decrease (increase) in amounts due from customers for contract work		**2,913**	(7,252)
Decrease (increase) in other receivables, prepayments and deposits		**17,784**	(59,633)
Decrease in amounts due from related companies		**–**	9,127
Increase in amounts due from associates		**(10,837)**	(367)
Increase in trade and other payables		**2,884**	30,700
Increase in amounts due to customers for contract work		**569**	424
Decrease in deferred income		**(2,291)**	(1,026)
Decrease in provisions		**(5,304)**	–
Increase (decrease) in amount due to a related company		**363**	(3,819)
Increase in amounts due to associates		**9,624**	8
Cash generated from operations		**28,981**	226,027
Interest paid		**(2,734)**	(4,289)
Income tax paid		**(154,563)**	(469,566)
NET CASH USED IN OPERATING ACTIVITIES		**(128,316)**	(247,828)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
INVESTING ACTIVITIES			
Interest received		**95,255**	64,141
Acquisitions of subsidiaries	40	**(880,985)**	(116,183)
Acquisitions of associates		**–**	(28,992)
Acquisitions of additional equity interests of a subsidiary		**(228)**	–
Purchase of held-for-trading investments		**–**	(208,153)
Proceeds from disposal of property, plant and equipment		**2,029**	388
Cash outflow from disposal of a subsidiary	47	**–**	(2,213)
Proceeds from disposal of subsidiaries		**65,396**	–
Proceeds from disposal of held-for-trading investments		**32,676**	–
Deposits paid for acquisition of property, plant and equipment		**(17,464)**	(32,817)
Placement of bank deposits		**(1,400,760)**	(2,421,255)
Placement of pledged bank deposit		**–**	(236,805)
Withdrawal of bank deposits		**2,838,633**	3,486,902
Withdrawal of pledged bank deposit		**247,622**	112,362
Advance of loan receivables		**(9,684)**	(6,348)
Repayment of loan receivables		**3,452**	3,222
Purchase of prepaid lease payments		**(38,202)**	(195,287)
Purchase of property, plant and equipment		**(507,379)**	(330,744)
Purchase of intangible assets		**(22,804)**	(4,097)
NET CASH FROM INVESTING ACTIVITIES		**407,557**	84,121
FINANCING ACTIVITIES			
Contribution from non-controlling shareholders		**–**	90,300
Return of contribution to an associate and non-controlling shareholder from a subsidiary of the Group		**(26)**	(4,848)
Proceeds from issue of convertible preferred shares		**260,359**	–
Proceeds from shares issued upon exercise of share options		**19,150**	12,464
Dividends paid		**(117,631)**	(161,607)
Dividend paid to non-controlling interest of a subsidiary		**(239)**	–
New bank borrowing raised		**–**	236,805
Repayment of bank borrowings		**(285,838)**	(114,430)
Payment for repurchase of shares		**(70,581)**	(153,392)
NET CASH USED IN FINANCING ACTIVITIES		**(194,806)**	(94,708)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**84,435**	(258,415)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,036,788**	1,304,355
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	**5,734**	(9,152)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,126,957**	1,036,788

1. GENERAL

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate controlling shareholders are Messrs. Liu Dejian, Liu Luyuan and Zheng Hui (the "Ultimate Controlling Shareholders"). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Units 2001-05 & 11, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are engaged in (i) online games development, including games design, programming and graphics and online games operation, (ii) education business and (iii) mobile solution and mobile marketing business.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
Amendments to HKAS 1	Disclosure Initiative[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2016.
3 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liabilitiy's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKAS 39, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been remained. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's unlisted equity investments that are currently classified as available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss are disclosed in note 43.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors anticipate that the application of other new and revised standards will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the provision of the new CO (Cap 622) regarding preparation of accounts and directors' reports and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special propose entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates (Cont'd)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Online and mobile games revenue

The Group sells pre-paid game cards to distributors and online and mobile game players. With the pre-paid game cards, online and mobile game players can credit their online and mobile game accounts with game points which can be used for the consumption of certain online and mobile games of the Group or for purchasing virtual products or premium features for the consumption of other online and mobile games of the Group which are free-to-play. The virtual products or premium features purchased by the customers are then used by them in the online and mobile games. The game players can also credit their online and mobile user accounts directly. Such income received is deferred and recorded as deferred income under current liabilities and would be recognised as revenue (i.e. online and mobile game revenue) after the actual usage of the game points in the online and mobile games. Revenue recognised in respect of operating the online and mobile games is net of any discounts.

Education revenue

The Group sells education equipment to a global network of distributors and reseller partners.

Revenue from the sale of education equipment and related goods is recognised when the education equipment and related goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Maintenance contract sales

Revenue from maintenance contracts and enhanced service sales are recognised on a straight-line basis over the period of the contract as services are provided equally over the course of the contract.

Payments received in advance of services are recorded as deferred income and are recognised in profit or loss proportionately over the period that services are provided

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised when services are provided.

Construction contracts

Revenue from construction contracts are related to mobile solution and mobile marketing business. When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Property, plant and equipment

Property, plant and equipment including leasehold land and building held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation puropses are classified and accounted for as investment properties and are measured using fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

When an investment property is transferred to as an owner-occupied property upon the commencement of owner-occupation, the fair value of the investment property at the date of change in use is treated as the deemed cost of the property for subsequent accounting in accordance with HKAS 16.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, are measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into an operating lease, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

The Group's financial assets are classified into the following specified categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL
Financial assets at FVTPL are held-for-trading financial assets.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the 'other income and gains'. Fair value is determined in the manner described in note 29.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Effective interest method (Cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivables, trade receivables, other receivables, amounts due from related companies, amounts due from associates, pledged bank deposit, bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Effective interest method (Cont'd)

Impairment of financial assets (Cont'd)

For financial assets carried at amortised cost, an amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities at FVTPL

A financial liability other than a financial liability held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net (loss) gain on derivative financial instruments' line item. Fair value is determined in the manner described in note 43.

Convertible preferred shares

The Group designated the convertible preferred shares as financial liabilities at fair value through profit or loss as they are contracts containing one or more embedded derivatives. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in the consolidated statement of profit or loss and other comprehensive income. Subsequent to initial recognition, the convertible preferred shares are carried at fair value with changes in fair value recognised in the profit or loss.

The convertible preferred shares are classified as current liabilities as the Group does not have an unconditional right to defer settlement of the liabilities for at least twelve months after the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities including trade and other payables, amount due to a related company, amounts due to associates and secured bank borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payment transactions

Equity-settled share-based payment transactions

Share option scheme

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in employee share-based compensation reserve.

At the end of each reporting period, the Group revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

When share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

Share award scheme

The Group operates share award scheme which allows it to grant shares to selected employees. For the shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

At the end of each reporting period, the Group revises its estimate of the number of shares that are expected to vest. The impact of the revision of original estimates, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the awarded shares are vested, the amount previously recognised in treasury share reserve and the amount of the employee share-based compensation reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are recognised as an expense when employees have rendered services entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on first-in, first-out and specific identification method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Warranties

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions (Cont'd)

Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the accounting policies (Cont'd)

Accounting for companies governed under contractual arrangements as subsidiaries

The Company and its subsidiaries do not hold any equity interests in NetDragon (Fujian), nor, in any of NetDragon (Fujian)'s subsidiaries, NetDragon (Shanghai) (which was deregistered in 2015) and 福建華漁未來教育科技有限公司 (Fujian Huayu Future Education Technology Limited) ("Fujian Huayu"). Nevertheless, under the contractual agreements entered into between the Group, NetDragon (Fujian) and the Ultimate Controlling Shareholders who are the registered owners of NetDragon (Fujian), the directors of the Company determine that the Group has the power to govern the financial and operating policies of NetDragon (Fujian), NetDragon (Shanghai) and Fujian Huayu so as to obtain benefits from their activities. As such, NetDragon (Fujian), NetDragon (Shanghai) and Fujian Huayu are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB898,846,000 (2014: RMB771,247,000) for the year ended 31 December 2015. At 31 December 2015, total assets and total liabilities of these entities amounted to approximately RMB701,704,000 (2014: RMB531,830,000) and RMB656,368,000 (2014: RMB534,278,000).

Deferred taxation on investment properties

For the purposes of measuring deferred tax liability or deferred tax asset arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amount of investment properties measured using the fair value model is recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key sources of estimation uncertainty (Cont'd)

Online and mobile game revenue recognition

Online and mobile game revenue is recognised after the actual usage of the game points in the online and mobile games. Income received in respect of unutilised game points including those arising from unactivated pre-paid game cards is recognised as deferred income. Online and mobile game income received is net of discounts given to certain distribution and sales channels. The amount of deferred income arising from unactivated pre-paid game cards is extracted from the accounting system of the Group. As to the amount of deferred income in respect of other unutilised game points, management's estimation is required in determining the average sales value of these unutilised game points as discounts given are different for different sales channels.

In assessing the amount of average sales value for the unutilised game points, management considers the discount rate applicable to each of the distribution and sales channels and the income received via different distribution and sales channels. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at year end. The average sales value of each game point is then determined by factoring the average discount rate to the face value of the game point. If the actual sales value of the unutilised game points differs from management's estimates, the amount of deferred income as well as online and mobile game revenue recognised would be affected.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of goodwill is RMB334,839,000. Details of the recoverable amount calculation are disclosed in note 21.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 43 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Allowances on trade receivables

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and the allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at an effective interest rate computed at initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE, OTHER INCOME AND GAINS

	2015 RMB'000	2014 RMB'000
Revenue		
Online game revenue	**985,427**	883,483
Education revenue	**242,801**	32,838
Mobile solution and mobile marketing revenue	**43,969**	46,496
	1,272,197	962,817

Note:

For the year ended 31 December 2015, the management considered that income derived from education and mobile solution and mobile marketing constituted revenue from the Group's principal activities due to the acquisition of new subsidiaries and rapid expansion of the mobile solution services.

	2015 RMB'000	2014 RMB'000
Other income and gains		
Government grants (Note)	**64,480**	25,262
Interest income	**63,999**	93,463
Net foreign exchange gain	**32,986**	15,417
Gain on disposal of a subsidiary	**–**	98
Gain on bargain purchase from acquisition of a subsidiary	**–**	59
Game implementation income	**11,618**	11,246
Compensation income	**–**	1,739
Rental income, net of negligible outgoing expenses	**2,598**	524
Server rental income	**346**	4,703
Others	**11,900**	4,590
	187,927	157,101

Note:

Government grants were received from the government of the PRC mainly for subsidising the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to software or technology development. There are no unfulfilled conditions or contingencies relating to the grants.

6. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank borrowings	4,646	3,212
Other interest expense	785	—
	5,431	3,212

7. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

In the past, there was only one business component in the internal reporting to the CODM, which is the online game development and operation and marketing of those online games. During the year ended 31 December 2015, the CODM considered that it is in the best interests to the shareholders of the Company to assess the operating results of the Group in terms of resource allocation and performance assessment by nature of services provided, which are (i) online game, (ii) education and (iii) mobile solution and mobile marketing businesses. Accordingly, it is determined that the Group was engaged in three operating segments, online game, education and mobile solution and mobile marketing business. The comparative figures have been restated as a result of the change of segment information presented. This is the basis upon which the Group is organised.

The following is an analysis of the Group's revenue and results by reportable segment:

2015

	Online game RMB'000	Education RMB'000	Mobile solution and mobile marketing RMB'000	Total RMB'000
Segment revenue	985,427	242,801	43,969	1,272,197
Segment profit (loss)	357,046	(274,100)	(26,370)	56,576
Unallocated income and gains				82,922
Unallocated expenses				(217,605)
Net loss on held-for-trading investments				(9,144)
Loss before taxation				(87,251)

7. SEGMENT INFORMATION (Cont'd)

2014

	Online game RMB'000	Education RMB'000	Mobile solution and mobile marketing RMB'000	Total RMB'000
Segment revenue	883,483	32,838	46,496	962,817
Segment profit (loss)	303,338	(40,370)	27,529	290,497
Unallocated income and gains				104,655
Unallocated expenses				(141,830)
Net loss on held-for-trading investments				(17,304)
Profit before taxation				236,018

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by or loss incurred from each segment without allocation of share-based payments expense, net (loss) gain on derivative financial instruments (excluding convertible preferred shares), net loss on held-for-trading investments, net gain on disposal of held-for-trading investments, income tax expenses, and unallocated income, gains and expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

All of the segment revenue reported above is from external customers.

The following is an analysis of the Group's assets by operating segments:

	2015 RMB'000	2014 RMB'000
Online game	**2,699,063**	3,383,304
Education	**1,841,183**	673,972
Mobile solution and mobile marketing	**165,992**	207,808
Total segment assets	**4,706,238**	4,265,084
Unallocated	**795,860**	965,303
	5,502,098	5,230,387

7. SEGMENT INFORMATION (Cont'd)

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as available-for-sale investments, held-for-trading investments, loan receivables, certain bank deposits and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

Geographical information

The Group's operations are mainly located in the PRC, the United States of America ("USA") and the United Kingdom ("UK").

The Group's revenue from external customers by geographical location of the operations are detailed below:

	2015 RMB'000	2014 RMB'000
PRC	**941,874**	816,161
USA	**194,259**	91,267
Hong Kong	**41,798**	37,770
UK	**9,248**	–
Germany	**8,276**	–
France	**10,997**	–
Others	**65,745**	17,619
	1,272,197	962,817

The Group's non-current assets, excluding available-for-sale investments, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

	2015 RMB'000	2014 RMB'000
PRC	**1,794,131**	1,228,275
UK	**1,051,693**	–
Hong Kong	**227,695**	219,065
USA	**10,335**	58
France	**372**	–
Germany	**27**	–
Indonesia	**4**	8
	3,084,257	1,447,406

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2015 and 2014.

8. TAXATION

	2015 RMB'000	2014 RMB'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	**6,247**	6,988
– (Over) underprovision in prior years	**(322)**	4,521
	5,925	11,509
PRC Enterprise Income Tax ("EIT")		
– Current year	**20,957**	54,794
– Withholding tax	**525**	–
– Under (over) provision in prior years	**75,325**	(2,343)
	96,807	52,451
Taxation in other jurisdiction	**223**	172
Deferred tax		
– Origination and reversal of temporary differences	**189**	65
– Crystallisation of deferred tax on intangible assets	**(2,469)**	–
	(2,280)	65
	100,675	64,197

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

PRC EIT is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

8. TAXATION (Cont'd)

Pursuant to the joint approval by National Development and Reform Commission (中華人民共和國國家發展和改革委員會), the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和資訊化部), the Ministry of Finance of the PRC ("MOF") (中華人民共和國財政部), the Ministry of Commerce of the PRC (中國商務部) and the State Administration of Taxation ("SAT") (國家稅務總局), Fujian TQ Digital Inc. ("TQ Digital"), a wholly foreign-invested enterprise, had been recognised as a key software enterprise on 22 December 2013 under the State Administration of Taxation under the National Plan (國家規劃佈局). According to the Circular on Enterprise Income Tax Policy to Further Encouraging the Development of Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》) issued by the MOF, key software enterprises (重點軟件企業) which have not yet enjoyed tax free concessions for the relevant financial years will be subject to enterprise income tax at the reduced rate of 10% and the qualification of key software enterprises is subject to review once every two years. Therefore, TQ Digital was entitled to a preferential EIT rate of 10% for the year ended 31 December 2014. In 2015, such policy for key software enterprises was cancelled. On 10 October 2014, TQ Digital was approved to be a hi-tech enterprise and is entitled to a reduced tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years. Therefore, the tax rate of TQ Digital for the year ended 31 December 2015 is 15%.

Under the Law of PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of NetDragon (Fujian) and Fujian TQ Online Interactive Inc. ("TQ Online") is 25%.

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable.

For the year ended 31 December 2015, the USA income tax rates applicable to a subsidiary incorporated in the USA is 39% (2014: 39%) for federal tax and 8.84% (2014: 8.84%) for state income tax.

UK corporation tax rate applicable to subsidiaries newly acquired as set out in note 40 is 20% for the year ended 31 December 2015.

8. TAXATION (Cont'd)

The tax charge for the year is reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 RMB'000	2014 RMB'000
(Loss) profit before taxation	**(87,251)**	236,018
Tax at the applicable tax rate of 25% (2014: 25%) (Note a)	**(21,813)**	59,005
Tax effect of share of losses of associates	**2,478**	588
Tax effect of income not taxable for tax purpose	**(25,597)**	(23,075)
Tax effect of expenses not deductible for tax purpose	**29,109**	90,973
Tax effect of temporary difference not recognised	**10,246**	(567)
Utilisation of tax losses previously not recognised	**(2,899)**	(56)
Tax effect of tax loss not recognised	**59,257**	22,342
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(236)**	(2,783)
Effect of previously deductible temporary difference now recognised as deferred tax assets	**191**	—
Additional tax benefit on development expenses (Note b)	**(7,644)**	(6,220)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	**(17,955)**	(78,177)
Under provision in prior years (Note c)	**75,003**	2,178
Others	**535**	(11)
Tax charge for the year	**100,675**	64,197

Notes:

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2015 and 2014.

b. Pursuant to the relevant tax rules and regulations, the Group can obtain additional tax benefit, which is equivalent to 15% of the staff costs and depreciation under development costs incurred for the development of new games and advanced technology development.

c. Included in under provision in prior years, is mainly an additional EIT of approximately RMB74,944,000 levied by PRC tax authority, on special compensation arising from the disposal of 91 Wireless Websoft Limited ("91 Limited") and its subsidiaries ("91 Group") in 2013.

Details of deferred taxation are set out in note 22.

9. (LOSS) PROFIT FOR THE YEAR

	2015 RMB'000	2014 RMB'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**7,724**	7,759
Other staff costs		
Salaries and other benefits	**655,867**	383,897
Contributions to retirement benefits schemes	**69,275**	34,624
Share-based payments expense	**8,254**	19,842
	741,120	446,122
Auditor's remuneration		
– audit services	**2,206**	1,532
– non-audit services	**5,958**	1,878
	8,164	3,410
Amortisation of intangible assets	**35,437**	7,448
Release of prepaid lease payments (included in administrative expenses)	**2,812**	2,308
Depreciation of property, plant and equipment	**113,678**	70,002
Total depreciation and amortisation	**151,927**	79,758
Cost of goods sold for education equipment	**145,707**	–
Advertising and promotion expenses (included in selling and marketing expenses)	**87,866**	83,601
Transaction costs for the very substantial acquisition (excluded auditor's remuneration)	**17,233**	–
Amounts written off as uncollectible	**4**	5,633
Allowances on trade receivables	**1,911**	4,509
Operating lease rentals in respect of		
– rented premises	**47,709**	15,358
– computer equipment	**52,815**	39,859
Loss on disposal of property, plant and equipment	**667**	667
Loss on deemed disposal of associates	**3,353**	–
Net foreign exchange gain	**(17,482)**	(10,336)

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the nine (2014: eight) directors of the Company were as follows:

	2015				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	–	611	–	259	870
Mr. Liu Luyuan (Note a)	–	620	26	259	905
Mr. Zheng Hui	–	267	27	42	336
Mr. Chen Hongzhan	–	566	24	259	849
Dr. Leung Lim Kin, Simon (Note b)	–	1,995	3	–	1,998
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Chao Guowei, Charles	436	–	–	486	922
Mr. Lee Kwan Hung	436	–	–	486	922
Mr. Liu Sai Keung, Thomas	436	–	–	486	922
	1,308	4,059	80	2,277	7,724

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

	2014				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	–	590	–	464	1,054
Mr. Liu Luyuan (Note a)	–	591	21	464	1,076
Mr. Zheng Hui	–	152	19	70	241
Mr. Chen Hongzhan	–	590	20	464	1,074
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Chao Guowei, Charles	403	–	–	1,035	1,438
Mr. Lee Kwan Hung	403	–	–	1,035	1,438
Mr. Liu Sai Keung, Thomas	403	–	–	1,035	1,438
	1,209	1,923	60	4,567	7,759

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Notes:

a. Mr. Liu Luyuan is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

b. Dr. Leung Lim Kin, Simon was appointed as an executive director on 30 October 2015.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

Five highest paid employees

Of the five highest emoluments in the Group, during both reporting periods, none of them was executive director of the Company, whose emoluments are set out above. The emoluments of the five individuals (2014: five) were as follows:

	2015 RMB'000	2014 RMB'000
Salaries and other benefits	**12,529**	6,365
Contribution to retirement benefits schemes	**120**	98
Share-based payments expense	**2,733**	10,703
	15,382	17,166

Their emoluments were within the following bands:

	2015 Number of employees	2014 Number of employees
In Hong Kong dollar ("HKD")		
HKD2,500,001 to HKD3,000,000	**1**	1
HKD3,500,001 to HKD4,000,000	**2**	1
HKD4,000,001 to HKD4,500,000	**1**	2
HKD5,000,001 to HKD5,500,000	**1**	–
HKD6,500,001 to HKD7,000,000	**–**	1
	5	5

During the year ended 31 December 2015, no emoluments have been paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during the years ended 31 December 2015 and 2014.

11. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Dividends recognised as distribution during the year:		
2015 Interim — HKD0.10 (2014: 2014 Interim dividend of HKD0.20) per share	**39,246**	81,277
2014 Final — HKD0.20 (2014: 2013 Final dividend of HKD0.20) per share	**78,385**	80,330
	117,631	161,607

The final dividend of HKD0.10 (2014: HKD0.20) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB49,767,000 (2014: RMB78,865,000).

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2015 RMB'000	2014 RMB'000
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share:		
– (loss) profit for the year attributable to the owners of the Company	**(142,979)**	176,681

12. (LOSS) EARNINGS PER SHARE (Cont'd)

	Number of shares 2015 '000	2014 '000
Weighted average number of shares in issue during the year for the purpose of basic (loss) earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**495,540**	508,158
Effect of dilutive potential shares from the Company's share option scheme (Note)	**–**	8,096
Number of shares for the purpose of calculating diluted (loss) earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**495,540**	516,254

Note: The calculation of diluted loss per share for the year ended 31 December 2015 does not assume the exercise of the Company's outstanding share options as the exercise of the Company's share option would result in a decrease in loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2014	23,130	120,127	241,403	23,563	351,650	759,873
Exchange adjustments	(43)	(7)	(47)	–	–	(97)
Additions	2,287	87,499	98,726	14,569	141,282	344,363
Acquired on acquisition of subsidiaries	–	186	2,383	–	–	2,569
Reclassification	356,612	21,356	–	–	(377,968)	–
Disposals	–	(579)	(11,626)	(379)	–	(12,584)
Transfer from investment property (Note 15)	15,882	–	–	–	–	15,882
At 31 December 2014	397,868	228,582	330,839	37,753	114,964	1,110,006
Exchange adjustments	1,110	562	(753)	14	(19)	914
Additions	23	84,097	69,376	6,067	358,306	517,869
Acquired on acquisition of subsidiaries	23,459	10,810	205,065	854	1,573	241,761
Reclassification	39,158	188	–	–	(39,346)	–
Disposals	–	–	(18,433)	(4,447)	–	(22,880)
Transfer to investment properties (Note 15)	(35,787)	–	–	–	–	(35,787)
At 31 December 2015	425,831	324,239	586,094	40,241	435,478	1,811,883

13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
DEPRECIATION						
At 1 January 2014	3,274	47,240	166,910	9,765	–	227,189
Exchange adjustments	4	2	(42)	–	–	(36)
Provided for the year	4,984	17,082	42,246	5,690	–	70,002
Acquired on acquisition of subsidiaries	–	98	1,578	–	–	1,676
Eliminated on disposals	–	(511)	(10,696)	(322)	–	(11,529)
At 31 December 2014	8,262	63,911	199,996	15,133	–	287,302
Exchange adjustments	(57)	203	(826)	14	–	(666)
Provided for the year	19,574	24,458	61,996	7,650	–	113,678
Acquired on acquisition of subsidiaries	14,458	6,827	167,071	588	–	188,944
Eliminated on disposals	–	–	(17,071)	(3,113)	–	(20,184)
Transfer to investment properties (Note15)	(3,308)	–	–	–	–	(3,308)
At 31 December 2015	38,929	95,399	411,166	20,272	–	565,766
CARRYING VALUES						
At 31 December 2015	386,902	228,840	174,928	19,969	435,478	1,246,117
At 31 December 2014	389,606	164,671	130,843	22,620	114,964	822,704

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, after taking into account of their residual values, at the following rates per annum:

Land and buildings	Over the shorter of the term of the lease of 20 years, or 4%
Leasehold improvements	Over the shorter of the terms of the leases, or 4.74% - 33.33%
Plant and equipment	19% - 31.67%
Motor vehicles	19% - 31.67%

13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

An analysis of the carrying values of land and buildings is as below:

	2015	2014
	RMB'000	RMB'000
In Hong Kong	**–**	31,860
In UK	**8,747**	–
In the PRC other than in Hong Kong	**378,155**	357,746
	386,902	389,606

14. PREPAID LEASE PAYMENTS

	2015	2014
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**2,733**	2,708
Non-current assets	**438,677**	378,673
	441,410	381,381

The Group's prepaid lease payments are located in the PRC. Inclusion in the prepaid lease payments are land use rights with carrying amount of RMB315,430,000 (2014: RMB253,800,000) which the Group is in the process of obtaining the land use right certificates.

15. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2014	15,725
Exchange adjustments	157
Transfer to property, plant and equipment (Note 13)	(15,882)
At 31 December 2014 and 1 January 2015	—
Exchange adjustments	1,122
Transfer from property, plant and equipment	54,255
At 31 December 2015	55,377

The fair values of the Group's investment properties, including both land and building elements, as at 31 December 2015, 4 October 2015 and 19 August 2014 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. Asset Appraisal Limited is a member of The Hong Kong Institute of Surveyors. The valuation was determined by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The investment properties were commercial property units located in Hong Kong categorised into Level 3 of the fair value hierarchy in 2015.

On 4 October 2015, the Group's property, plant and equipment with net book value of RMB32,479,000 and fair value of RMB54,255,000 was transferred to investment properties as the Group changed its intention from self-use to earning rentals.

On 19 August 2014, the Group's investment property with fair value of RMB15,882,000 was transferred to property, plant and equipment as the Group changed its intention from earning rentals to self-use.

16. INTANGIBLE ASSETS

	Trademarks	Licence	Non-competition agreement	Customers relationship	Patent and technology	Development costs	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note c)		(Note a)	(Note a)	(Note b)	(Note b)		
COST								
At 1 January 2014	20,189	–	–	–	–	–	6,700	26,889
Exchange adjustments	61	–	–	–	–	–	–	61
Additions	883	–	–	–	–	–	3,214	4,097
Acquired on acquisition of subsidiaries (Note 40)	3,595	5,245	61,031	74,736	–	–	–	144,607
At 31 December 2014	24,728	5,245	61,031	74,736	–	–	9,914	175,654
Exchange adjustments	1,218	–	–	–	–	(1,291)	–	(73)
Additions	–	20,929	–	–	–	7,536	–	28,465
Acquired on acquisition of subsidiaries (Note 40)	277,551	–	–	80,948	332,359	107,435	23,127	821,420
Write off for the year	(21,432)	–	–	–	–	–	–	(21,432)
At 31 December 2015	282,065	26,174	61,031	155,684	332,359	113,680	33,041	1,004,034
AMORTISATION								
At 1 January 2014	20,189	–	–	–	–	–	6,700	26,889
Exchange adjustments	63	–	–	–	–	–	–	63
Provided for the year	427	579	3,030	3,338	–	–	74	7,448
At 31 December 2014	20,679	579	3,030	3,338	–	–	6,774	34,400
Exchange adjustments	1,211	–	–	–	–	468	–	1,679
Provided for the year	775	5,225	6,783	9,724	6,420	2,904	3,606	35,437
Write off for the year	(21,432)	–	–	–	–	–	–	(21,432)
At 31 December 2015	1,233	5,804	9,813	13,062	6,420	3,372	10,380	50,084
CARRYING VALUES								
At 31 December 2015	280,832	20,370	51,218	142,622	325,939	110,308	22,661	953,950
At 31 December 2014	4,049	4,666	58,001	71,398	–	–	3,140	141,254

16. INTANGIBLE ASSETS (Cont'd)

Notes:

a. Intangible assets represent customers relationship and non-competition agreement mainly from the acquisition of Cherrypicks International Holdings Limited ("Cherrypicks") and its subsidiaries (collectively referred to as "Cherrypicks Group"). Cherrypicks Group have long and close business relationship with the major customers and non-competition agreement was signed between Cherrypicks Group and its employees upon acquisition. The acquisition of Cherrypicks Group has allowed the Group to develop its long term growth from Cherrypicks Group's mobile solution and mobile marketing business.

b. Patent and technology represents the acquired technological know-how for producing Interactive Whiteboard ("IWB") and Interactive Flat Panel ("IFP"). Development costs represent the software internally generated for a cloud-based teaching and learning platform which connects students' tablets and laptops to interactive displays (IWB and IFP). The patent and technology and development costs were acquired from the acquisition of Promethean World Limited (formerly known as Promethean World Plc) and its subsidiaries (collectively referred to as "Promethean Group").

c. Included in the trademarks, the trademarks acquired from the acquisition of Promethean Group have legal lives of 2 to 20 years and are renewable every 2 to 20 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group.

   As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in note 21.

The above intangible assets, other than trademarks with indefinite useful lives have finite useful lives. Such intangible assets are amortised on a straight-line basis at the following rates per annum:

Trademarks	10% - 57.14%
Licence	20%
Non-competition agreement	11.11%
Customers relationship	10%
Patent and technology	10%
Development costs	33.33%
Others	10% - 50%

17. INTERESTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Unlisted investments:		
Cost of investments	**31,572**	31,572
Share of post-acquisition losses	**(12,689)**	(2,777)
Contribution to a subsidiary of the Group	**–**	(858)
Withdrawal from a subsidiary of the Group	**–**	858
Group's share of net assets of associates	**18,883**	28,795

As at 31 December 2015 and 2014, the Group had interests in the following associates:

Name of entities	Proportion of ownership interest and voting rights held by the Group 2015	2014	Country of establishment/ operation	Registered capital	Principal activities
廈門易用軟件技術有限公司 (廈門易用) (Note a)	**42.9%**	42.9%	PRC	RMB3,500,000	Provision of business management software application development
101 Education Technology Co. Ltd. (101 Cayman) (Note b)	**49.0%**	49.0%	Cayman Islands	USD8,000,000	Investment holding
101 Education Technology Co. Ltd. (101 BVI) (Note b)	**49.0%**	49.0%	BVI	USD8,000,000	Investment holding
101 Education Technology (Hong Kong) Co. Ltd. (101 HK) (Note b)	**49.0%**	49.0%	Hong Kong	USD8,000,000	Provision of online education and related application business
福建創思教育科技有限公司 (福建創思教育) (Note b)	**49.0%**	49.0%	PRC	USD8,000,000	Provision of online education and related application business
福建一零一教育科技有限公司 (福建一零一教育) (Note b)	**49.0%**	49.0%	PRC	RMB10,000,000	Provision of online education and related application business

17. INTERESTS IN ASSOCIATES (Cont'd)

Notes:

a. During the year 2011, the Group acquired an associate, 廈門易用 from an independent third party with fair value of assets and liabilities attributable to the interests acquired by the Group of approximately RMB1,359,000 at a consideration of RMB2,500,000. The investment cost of 廈門易用 included goodwill of approximately RMB1,141,000.

b. During the year 2014, the Group holds 49% of the issued share capital of 101 Cayman, 101 BVI, 101 HK, 福建創思教育 (collectively referred to as "101 Education Group") and 福建一零一教育, and has the power to appoint three directors out of seven directors in the board. Therefore, 101 Education Group and 福建一零一教育 are classified as associates of the Group.

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

廈門易用

	2015	2014
	RMB'000	RMB'000
Current assets	**440**	967
Non-current assets	**5**	21
Current liabilities	**31**	67
Revenue	**83**	371
Loss for the year	**(506)**	(1,603)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015	2014
	RMB'000	RMB'000
Net assets of 廈門易用	**414**	921
Proportion of the Group's ownership interest in 廈門易用	**42.9%**	42.9%
Goodwill	**1,141**	1,141
Others	**(67)**	(67)
Carrying amount of the Group's interest in 廈門易用	**1,252**	1,469

17. INTERESTS IN ASSOCIATES (Cont'd)

101 Education Group

	2015 RMB'000	2014 RMB'000
Current assets	**35,278**	47,029
Non-current assets	**393**	57
Current liabilities	**1,456**	579
Revenue	**1,541**	–
Loss for the year	**(12,291)**	(2,661)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015 RMB'000	2014 RMB'000
Net assets of 101 Education Group	**34,215**	46,507
Proportion of the Group's ownership interest in the 101 Education Group	**49.0%**	49.0%
Carrying amount of the Group's interest in the 101 Education Group	**16,765**	22,788

17. INTERESTS IN ASSOCIATES (Cont'd)

福建一零一教育

	2015	2014
	RMB'000	RMB'000
Current assets	**14,211**	9,291
Non-current assets	**836**	101
Current liabilities	**13,280**	131
Revenue	**13,305**	–
Loss for the year	**(7,494)**	(739)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015	2014
	RMB'000	RMB'000
Net assets of 福建一零一教育	**1,767**	9,261
Proportion of the Group's ownership interest in 福建一零一教育	**49.0%**	49.0%
Carrying amount of the Group's interest in 福建一零一教育	**866**	4,538

18. AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB'000	2014 RMB'000
Unlisted equity securities in the PRC		
–福建楊振華851生物科技股份有限公司 (Fujian Yangzhenhua 851 Bio-Engineering Inc.) (Note a)	**4,000**	4,000
–青島信通物聯網絡有限公司 (Note b)	**1,000**	1,000
	5,000	5,000

Notes:

a. Being unlisted equity investment representing 9.5% equity interest in 福建楊振華851生物科技股份有限公司 (Fujian Yangzhenhua 851 Bio-Engineering Inc.) which was established in the PRC. Mr. Liu Dejian and Mr. Zheng Hui, directors of the Company, are directors of the entity.

b. The entity is a private entity established in the PRC. During 2012, the Group invested RMB1,000,000 in this entity which represents 10% of equity interest in this entity.

The available-for-sale investments are stated at cost less impairment at the end of the reporting period because the directors are of the opinion that its fair value cannot be measured reliably.

19. LOAN RECEIVABLES

	2015 RMB'000	2014 RMB'000
Fixed-rate loan receivables	**20,655**	14,320
Variable-rate loan receivables	**5,823**	5,585
	26,478	19,905
Analysed as:		
Current	**3,397**	1,578
Non-current	**23,081**	18,327
	26,478	19,905

19. LOAN RECEIVABLES (Cont'd)

The effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	2015	2014
Effective interest rate:		
Fixed-rate loan receivables (per annum)	**3.33%-5.54%**	4.20%-6.00%
Variable-rate loan receivables (per annum)	**2.15%**	2.15%

Included in loan receivables RMB20,655,000 (2014: RMB11,454,000) represented loans to certain key management and staffs. Loan receivables are not past due or impaired at the end of the reporting period. The loans are either repayable by instalments until 2016, 2017, 2019, 2020 or 2040 or repayable in whole in 2017 and 2018. The Group does not hold any collateral over this balance.

20. GOODWILL

	2015 **RMB'000**	2014 RMB'000
COST AND CARRYING VALUES		
At 1 January, as originally stated	**40,013**	12,534
Arising on acquisition of subsidiaries (Note 40)	**294,826**	27,479
At 31 December	**334,839**	40,013

Particulars regarding impairment testing on goodwill are disclosed in note 21.

21. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in notes 20 and 16 have been allocated to four individual or group of cash generating units (CGUs), comprising three subsidiaries in the education segment and one subsidiary in the mobile solution and mobile marketing segment. The carrying amounts of goodwill and trademarks as at 31 December 2015 allocated to these units are as follows:

	Goodwill		Trademarks	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Education:				
CGU-1	**12,534**	12,534	**–**	–
CGU-2	**31,097**	–	**–**	–
CGU-3	**263,729**	–	**277,137**	–
	307,360	12,534	**277,137**	–
Mobile solution and mobile marketing:				
CGU-4	**27,479**	27,479	**–**	–
At 31 December	**334,839**	40,013	**277,137**	–

The recoverable amounts of the CGUs arising from education and mobile solution and mobile marketing business were determined individually based on value in use calculations. Those value in use calculations use cash flow projections based on financial forecasts approved by management covering a five-year period and discount rates of 14.58% (2014: 6.75%), 17.35%, 14.28% and 16.59% (2014: 12.34%) for each CGU respectively. Cash flows beyond five-year period is extrapolated using a steady growth rate ranging from 1.6% to 3.0%. Cash flow projections during the forecast period for the CGUs are based on the expected gross margins during the forecast period. Forecasted gross margins were determined based on past performance and the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs to exceed the recoverable amounts of respective CGUs.

During the years ended 31 December 2015 and 2014, management of the Group determines that there is no impairment of any of its CGUs containing goodwill or trademarks with indefinite useful lives.

22. DEFERRED TAXATION

The deferred tax assets and liabilities are presented in the consolidated statement of financial position as below:

	2015 RMB'000	2014 RMB'000
Deferred tax assets	3,611	54
Deferred tax liabilities	(149,993)	(116)
	(146,382)	(62)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation allowance RMB'000	Development costs and accrued expenses RMB'000	Property, plant and equipment RMB'000	Intangible assets RMB'000	Inventories RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2014	–	54	–	–	–	–	–	54
Charged to profit or loss	(65)	–	–	–	–	–	–	(65)
Arising on acquisition of subsidiaries (Note 40)	(51)	–	–	–	–	–	–	(51)
At 31 December 2014	(116)	54	–	–	–	–	–	(62)
(Charged) credited to profit or loss	(26)	(54)	–	2,469	–	(109)	–	2,280
Arising on acquisition of subsidiaries (Note 40)	–	–	527	(152,312)	82	2,032	1,095	(148,576)
Exchange realignment	(8)	–	(6)	–	(1)	4	(13)	(24)
At 31 December 2015	(150)	–	521	(149,843)	81	1,927	1,082	(146,382)

At the end of the reporting period, the Group has taxable temporary differences associated with undistributed earnings of PRC subsidiaries of RMB1,410,929,000 (2014: RMB1,253,694,000). No deferred tax liability has been recognised for the undistributed earnings of RMB1,410,929,000 (2014: RMB1,253,694,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The Group also has not recognised deferred tax assets arising from tax losses amounting to approximately RMB345,957,000 (2014: RMB108,926,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. Included in unrecognised tax losses are losses of approximately RMB345,957,000 (2014: RMB108,926,000) that will expire within five years from the end of the reporting period.

23. TRADE RECEIVABLES

The Group generally allows a credit period ranging from 30 days to 90 days to its agents/trade customers. For customers in education business, the Group accepts settlement of trade receivables by four years in accordance with the agreements.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods/date of rendering of services which approximated the respective revenue recognition dates.

	2015	2014
	RMB'000	RMB'000
Trade debtors		
0 - 30 days	**126,351**	31,946
31 - 60 days	**63,674**	7,147
61 - 90 days	**19,197**	7,117
Over 90 days	**13,681**	4,862
Receivables with extended credit terms		
Due within one year	**11,830**	–
Due after one year	**18,112**	–
	252,845	51,072

Before accepting any new agent/customer, the Group uses an internal credit assessment policy to assess the potential agent/customer's credit quality and define credit limits by agent/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB32,466,000 (2014: RMB8,523,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

23. TRADE RECEIVABLES (Cont'd)

Ageing of trade receivables which are past due but not impaired

	2015 RMB'000	2014 RMB'000
31 - 60 days	**12,301**	2,023
61 - 90 days	**6,808**	6,010
Over 90 days	**13,357**	490
Total	**32,466**	8,523

Movement in the allowance for doubtful debts

	2015 RMB'000	2014 RMB'000
At beginning of year	**7,664**	3,025
Allowances recognised on receivables	**1,911**	4,509
Acquired on acquisition of subsidiaries	**4,447**	139
Exchange differences	**578**	(9)
At end of year	**14,600**	7,664

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB14,600,000 (2014: RMB7,664,000) of which the debtors have been in dispute with the Group.

24. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2015 RMB'000	2014 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	11,865	10,605
Less: progress billings	(8,519)	(3,777)
	3,346	6,828
Analysed for reporting process as:		
Amounts due from contract customers	4,339	7,252
Amounts due to contract customers	(993)	(424)
	3,346	6,828

25. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	1,501	–
Work in progress	1,325	–
Finished goods	114,758	–
	117,584	–

26. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

The balance mainly represents deposits and prepayments for education equipment and office and server rental of approximately RMB72,643,000 (2014: RMB32,012,000), other tax receivables of approximately RMB14,825,000 (2014: nil), interest receivables of approximately RMB12,661,000 (2014: RMB45,345,000) and other miscellaneous items for operating and investing activities.

In 2014, a balance of approximately RMB61,190,000 represented the remaining consideration of United State dollar ("USD")10,000,000 arising from the disposal of 91 Group, which was held by the independent escrow agent and such consideration was fully repaid in April 2015. Also, an amount of approximately RMB50,404,000 was paid to an agent to repurchase the Company's shares from the market in 2014. In January 2015, 4,700,000 shares of the Company were repurchased from the market at an aggregate consideration of RMB50,404,000.

27. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) are as follows:

Name of related company	Terms	Balance at 31 December 2015 RMB'000	Balance at 31 December 2014 RMB'000	Maximum amount outstanding during the year 2015 RMB'000	Maximum amount outstanding during the year 2014 RMB'000
福州楊振華851生物工程技術研究開發有限公司 Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") (Note a)	Unsecured, non-interest bearing and repayable on demand	**1,704**	1,704	**2,916**	3,041
福州天亮網絡技術有限公司 Fuzhou Tianliang Network Technology Co., Limited ("Fuzhou Tianliang") (Note b)	Unsecured, non-interest bearing and repayable on demand	**–**	–	**–**	2,414
		1,704	1,704		

Notes:

a. Fuzhou 851 is an entity which is owned by DJM Holding Ltd., the immediate holding company of the Company, and Mr. Liu Dejian, executive director and one of the Ultimate Controlling Shareholders of the Company, together in aggregate own 100% equity interest in this entity as of 31 December 2015 and 2014.

b. Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, which acts under the instruction of the Ultimate Controlling Shareholders.

28. AMOUNTS DUE FROM ASSOCIATES

The amounts are unsecured, non-interest bearing and repayable on demand.

29. HELD-FOR-TRADING INVESTMENTS

	2015 RMB'000	2014 RMB'000
Unlisted overseas bond	170,640	162,317
Equity securities listed in the USA	–	49,267
	170,640	211,584

The fair value of unlisted overseas bond is determined by reference to price provided by the financial institution. In 2014, the fair value of the listed equity securities is based on their current bid prices in active markets.

30. PLEDGED BANK DEPOSIT/BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and bank deposits carry interest at prevailing banking deposit rates which ranges from 0.001% to 4.1% (2014: 0.001% to 3.7%) per annum.

In 2014, pledged bank deposit represented deposit pledged to bank for issue of a standby documentary credit to secure bank borrowing granted to the Group as mentioned in note 35.

The pledged bank deposit was fully released upon the repayment of the bank borrowing.

Included in pledged bank deposit, bank deposits, bank balances and cash are the following amounts denominated in currency other than the functional currency of the respective group entities to which they relate:

	2015 RMB'000	2014 RMB'000
RMB	42,260	300,086
HKD	34,532	17,217
USD	621,472	964,762
EURO	1,294	880
Great Britain Pound ("GBP")	2,643	–

31. ASSETS CLASSIFIED AS HELD FOR SALE

	2015 RMB'000	2014 RMB'000
Freehold land and building held for sale	2,690	–

The Group intends to dispose of a property located in the UK that is no longer utilised. No impairment loss was recognised on reclassification of the building as held for sale nor as at 31 December 2015 as the property was sold to an independent third party after year end for an amount higher than the carrying amount.

32. TRADE AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Trade payables	198,132	8,638
Accrued staff costs	133,786	86,769
Receipt in advance	30,442	24,573
Other tax payables (Note a)	15,430	8,846
Other payables and accruals (Note b)	129,802	80,388
	507,592	209,214

Notes:

a. On 28 December 2011, 91 Limited introduced a share award scheme, whereby eligible participants are conferred rights by 91 Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Limited. Upon the disposal of 91 Group on 1 October 2013, the eligible participants would be entitled to the merger consideration of USD13.168 per share and the special dividend of USD0.371 per share of 91 Limited in cash, which were both received by the Group on behalf of the eligible participants. Included in other tax payables, an amount of approximately RMB0.8 million (2014: RMB5.7 million) of withholding PRC personal income tax calculated at the applicable tax rate and other surcharges was withheld by the Group.

b. Other payables and accruals mainly represent construction payable, dividend payable, advertising payable, office and server rental payable and other miscellaneous items for operating and investing activities.

32. TRADE AND OTHER PAYABLES (Cont'd)

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2015 **RMB'000**	2014 RMB'000
0 - 90 days	**137,998**	5,875
91 - 180 days	**57,186**	2,096
181 - 365 days	**2,297**	158
Over 365 days	**651**	509
	198,132	8,638

33. PROVISIONS

	Warranty RMB'000 (Note a)	**Restructuring** RMB'000 (Note b)	**Onerous lease** RMB'000 (Note c)	**Total** RMB'000
At 1 January 2015	—	—	—	—
Acquired on acquistion of subsidiaries (Note 40)	26,575	8,402	2,218	37,195
Additional provision	1,341	—	—	1,341
Utilisation of provision	(1,751)	(4,880)	(14)	(6,645)
Exchange realignment	(323)	(141)	(27)	(491)
At 31 December 2015	25,842	3,381	2,177	31,400

33. PROVISIONS (Cont'd)

	2015 RMB'000	2014 RMB'000
Analysed for reporting purposes as:		
Non-current	**2,027**	–
Current	**29,373**	–
	31,400	–

Notes:

a. The warranty provision is calculated by estimating the possible failure rates of the Promethean Group's hardware, with the exception of projectors which are covered by a third party warranty. The length of warranty period varies depending on both the product and the country the product is sold to; this period varies from one to five years.

The timing and frequency of product failures are inherently uncertain and for this reason the warranty provision has been disclosed as current.

b. Restructuring represents the reorganisation costs to restructure the business of Promethean Group, indirect non-wholly owned subsidiaries, to significantly reduce their operating cost base.

c. The onerous lease provision created in prior year arises from the exit of certain of the Promethean Group's premises in the UK and the USA due to the reorganisation of the Promethean Group to reduce its operating cost base in line with current market demand.

34. AMOUNT(S) DUE TO A RELATED COMPANY/ASSOCIATES

The amounts are unsecured, non-interest bearing and repayable on demand.

35. SECURED BANK BORROWINGS

In the current year, the bank borrowing carries interest rate of 200 to 250 basis points over 30-day London Inter-Bank Offer Rate ("LIBOR"). The borrowing was secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

In 2014, the secured bank borrowing which was denominated in USD, carried interest rate of LIBOR plus 0.8% per annum, was fully repaid on 7 December 2015. The borrowing was secured by the standby documentary credit of the same amount which was denominated in USD and was fully released upon the repayment of the bank borrowing.

36. CONVERTIBLE PREFERRED SHARES

Best Assistant Education Online Limited ("Best Assistant"), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P., Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon Websoft Inc. ("NetDragon BVI"), a direct wholly owned subsidiary of the Company (collectively referred to as "Series A Investors") on 13 February 2015. The Series A convertible preferred shares are denominated in USD.

Conversion

Series A convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to adjustments, in the event of share split, share division, share combination, share dividend, reorganisation, merger, consolidation, reclassification, exchange, substitution, recapitalisation or similar event.

Series A convertible preferred shares shall be automatically converted into ordinary shares upon occurrence of an underwritten public offering of the ordinary shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD1,000,000,000 and net proceeds to the subsidiary of the Company are in excess of USD100,000,000.

Dividends

The holders of outstanding Series A convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of the funds lawfully available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares or other equity securities. The right to receive dividends on Series A convertible preferred shares shall not be cumulative, and no rights to such dividends shall accrue to holders of convertible preferred shares.

36. CONVERTIBLE PREFERRED SHARES (Cont'd)

Liquidation

The holders of the Series A convertible preferred shares have preference over holders of ordinary shares and other equity securities with respect to payment of dividends and distribution of assets and funds upon liquidation of the subsidiary of the Company. The holders of the Series A convertible preferred shares shall be entitled to receive an amount equivalent to 300% of the issue price of Series A convertible preferred shares, plus all declared but unpaid dividends.

The Series A convertible preferred shares are classified as current liabilities.

The Group has elected to designate the Series A convertible preferred shares with embedded derivatives as financial liabilities at FVTPL on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

The movements of the Series A convertible preferred shares for the year are set out as below:

	Shown in the consolidated financial statements as RMB'000
Issue of convertible preferred shares	260,474
Fair value change	2,521
Exchange realignment	15,504
At 31 December 2015	278,499

37. OTHER PAYABLES

Other payables represent the remaining consideration for the acquisition of 蘇州馳聲信息科技有限公司（「蘇州馳聲信息」） as stated in note 40 and the consideration received on behalf of the eligible participants of the share award scheme upon the disposal of 91 Group. As at 31 December 2015, an amount of approximately RMB1,610,000 (2014: RMB2,385,000), which is repayable within twelve months after the end of the reporting period in accordance with the deferred payment agreement, is included in other payables as current liabilities. An amount of RMB1,283,000 was included as non-current liabilities as at 31 December 2014 which is payable in January 2016.

38. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2014, 31 December 2014 and 31 December 2015	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2014	508,609,711	5,086,097	37,664
Shares issued upon exercise of share options (Note i)	3,257,847	32,579	201
Repurchase and cancellation of shares (Note ii)	(14,632,500)	(146,325)	(1,084)
Shares issued upon acquisition of subsidiaries (Note iii)	2,626,204	26,262	162
At 31 December 2014	499,861,262	4,998,613	36,943
Shares issued upon exercise of share options (Note i)	4,382,758	43,827	269
Repurchase and cancellation of shares (Note ii)	(6,570,000)	(65,700)	(486)
At 31 December 2015	497,674,020	4,976,740	36,726

Notes:

(i) During the year ended 31 December 2015, 4,382,758 share options were exercised and as a result of 4,382,758 (2014: 3,257,847) ordinary shares were issued. Approximately RMB269,000 (2014: RMB201,000) and RMB27,149,000 (2014: RMB18,083,000) were recorded as share capital and share premium, respectively.

(ii) During the year ended 31 December 2015, the Company repurchased 6,570,000 (2014: 14,632,500) of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was approximately RMB70,581,000 (2014: RMB153,392,000).

(iii) During the year ended 31 December 2014, 2,626,204 ordinary shares were issued as consideration for acquisition of Cherrypicks Group. Approximately RMB162,000 and RMB28,031,000 were recorded as share capital and share premium, respectively.

39. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 12 June 2008. Subject to early termination, the Scheme shall be valid and effective for a period of 10 years from 12 June 2008. The purpose of the Scheme is to provide the eligible participant ("Eligible Participant") as defined in the Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Eligible Participants of the Scheme include employees, executives and officers of the members of the Group (including executive and non-executive directors of the members of the Group) and business consultants, agents and legal and financial advisers to the members of the Group whom the Board considers, in its sole discretion, will contribute or have contributed to the members of the Group.

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,643,704 (31 December 2014: 13,255,487), representing 1.74% (31 December 2014: 2.65%) of the shares of the Company in issue at that date. As at the date of this report, the number of securities of the Company available for issue under the Scheme was 29,320,165, representing approximately 5.95% of the issued share capital of the Company as at the date of this report. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue as at the date of grant. Where any further grant of options to an Eligible Participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

Options granted must be taken up within 28 days from the date of the offer, upon payment of a nominal consideration of HKD1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

Details of specific categories of options are as follows:

Batch 1:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
7 December 2009	N/A	7 December 2009 - 6 December 2019	280,000
7 December 2009	7 December 2009 - 6 December 2010	7 December 2010 - 6 December 2019	280,000
7 December 2009	7 December 2009 - 6 December 2011	7 December 2011 - 6 December 2019	280,000
7 December 2009	7 December 2009 - 6 December 2012	7 December 2012 - 6 December 2019	280,000
7 December 2009	7 December 2009 - 6 December 2013	7 December 2013 - 6 December 2019	280,000
			1,400,000

Batch 2:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
28 April 2011	28 April 2011 - 27 April 2012	28 April 2012 - 27 April 2021	1,717
28 April 2011	28 April 2011 - 27 April 2013	28 April 2013 - 27 April 2021	9,752
28 April 2011	28 April 2011 - 27 April 2014	28 April 2014 - 27 April 2021	39,528
28 April 2011	28 April 2011 - 27 April 2015	28 April 2015 - 27 April 2021	222,032
28 April 2011	28 April 2011 - 27 April 2016	28 April 2016 - 27 April 2021	2,567,700
			2,840,729

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

Batch 3:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
22 July 2011	22 July 2011- 27 April 2012	28 April 2012 - 27 April 2021	28,400
22 July 2011	22 July 2011- 27 April 2013	28 April 2013 - 27 April 2021	42,600
22 July 2011	22 July 2011- 21 July 2013	22 July 2013 - 21 July 2021	2,501
22 July 2011	22 July 2011- 27 April 2014	28 April 2014 - 27 April 2021	256,800
22 July 2011	22 July 2011- 21 July 2014	22 July 2014 - 21 July 2021	33,300
22 July 2011	22 July 2011- 27 April 2015	28 April 2015 - 27 April 2021	71,000
22 July 2011	22 July 2011- 21 July 2015	22 July 2015 - 21 July 2021	10,999
22 July 2011	22 July 2011- 27 April 2016	28 April 2016 - 27 April 2021	340,800
22 July 2011	22 July 2011- 21 July 2016	22 July 2016 - 21 July 2021	68,775
			855,175

Batch 4:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
23 April 2012	23 April 2012 - 22 April 2013	23 April 2013 - 22 April 2022	6,417
23 April 2012	23 April 2012 - 22 April 2014	23 April 2014 - 22 April 2022	116,920
23 April 2012	23 April 2012 - 22 April 2015	23 April 2015 - 22 April 2022	230,575
23 April 2012	23 April 2012 - 22 April 2016	23 April 2016 - 22 April 2022	322,250
23 April 2012	23 April 2012 - 22 April 2017	23 April 2017 - 22 April 2022	386,700
			1,062,862

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

Batch 5:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
6 July 2012	6 July 2012 - 5 July 2014	6 July 2014 - 5 July 2022	4,226
6 July 2012	6 July 2012 - 5 July 2015	6 July 2015 - 5 July 2022	25,575
6 July 2012	6 July 2012 - 5 July 2016	6 July 2016 - 5 July 2022	151,562
6 July 2012	6 July 2012 - 5 July 2017	6 July 2017 - 5 July 2022	181,875
			363,238

Batch 6:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
12 September 2012	12 September 2012 - 11 September 2013	12 September 2013 - 11 September 2022	4,200
12 September 2012	12 September 2012 - 11 September 2014	12 September 2014 - 11 September 2022	6,300
12 September 2012	12 September 2012 - 11 September 2015	12 September 2015 - 11 September 2022	8,400
12 September 2012	12 September 2012 - 11 September 2016	12 September 2016 - 11 September 2022	14,250
12 September 2012	12 September 2012 - 11 September 2017	12 September 2017 - 11 September 2022	17,100
			50,250

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

Batch 7:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
16 January 2013	16 January 2013 - 15 January 2014	16 January 2014 - 15 January 2023	6,350
16 January 2013	16 January 2013 - 15 January 2015	16 January 2015 - 15 January 2023	15,975
16 January 2013	16 January 2013 - 15 January 2016	16 January 2016 - 15 January 2023	107,900
16 January 2013	16 January 2013 - 15 January 2017	16 January 2017 - 15 January 2023	134,875
16 January 2013	16 January 2013 - 15 January 2018	16 January 2018 - 15 January 2023	161,850
			426,950

Batch 8:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
4 December 2013	4 December 2013 - 3 December 2014	4 December 2014 - 3 December 2023	159,000
4 December 2013	4 December 2013 - 3 December 2015	4 December 2015 - 3 December 2023	238,500
4 December 2013	4 December 2013 - 3 December 2016	4 December 2016 - 3 December 2023	477,000
			874,500

Batch 9:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
25 April 2014	25 April 2014 - 31 December 2014	1 January 2015 - 24 April 2024	139,000
25 April 2014	25 April 2014 - 31 December 2015	1 January 2016 - 24 April 2024	139,000
25 April 2014	25 April 2014 - 31 December 2016	1 January 2017 - 24 April 2024	139,000
25 April 2014	25 April 2014 - 31 December 2017	1 January 2018 - 24 April 2024	139,000
			556,000

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

Batch 10:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2015
11 May 2015	11 May 2015 - 6 October 2015	7 October 2015 - 10 May 2025	21,400
11 May 2015	11 May 2015 - 6 October 2016	7 October 2016 - 10 May 2025	32,100
11 May 2015	11 May 2015 - 6 October 2017	7 October 2017 - 10 May 2025	42,800
11 May 2015	11 May 2015 - 6 October 2018	7 October 2018 - 10 May 2025	53,500
11 May 2015	11 May 2015 - 6 October 2019	7 October 2019 - 10 May 2025	64,200
			214,000

The following table discloses the movement of the share options during the year ended 31 December 2015:

Option batch	Exercise price HKD	Outstanding at 1 January 2015	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31 December 2015
Batch 1	4.33	1,480,000	–	(80,000)	–	1,400,000
Batch 2	4.80	5,562,594	–	(2,394,715)	(327,150)	2,840,729
Batch 3	4.60	1,629,838	–	(757,563)	(17,100)	855,175
Batch 4	5.74	1,971,217	–	(808,205)	(100,150)	1,062,862
Batch 5	6.53	473,238	–	(110,000)	–	363,238
Batch 6	7.20	53,250	–	(3,000)	–	50,250
Batch 7	11.16	575,350	–	(112,775)	(35,625)	426,950
Batch 8	15.72	954,000	–	(79,500)	–	874,500
Batch 9	14.66	556,000	–	–	–	556,000
Batch 10	27.75	–	251,000	(37,000)	–	214,000
		13,255,487	251,000	(4,382,758)	(480,025)	8,643,704
Exercisable at the end of the year 2015						3,101,467
Weighted average exercise price		HKD6.41				HKD7.53

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

The following table discloses the movement of the share options during the year ended 31 December 2014:

Option batch	Exercise price HKD	Outstanding at 1 January 2014	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31 December 2014
Batch 1	4.33	2,200,000	–	(720,000)	–	1,480,000
Batch 2	4.80	8,016,784	–	(1,695,835)	(758,355)	5,562,594
Batch 3	4.60	2,127,463	–	(469,850)	(27,775)	1,629,838
Batch 4	5.74	2,501,667	–	(269,900)	(260,550)	1,971,217
Batch 5	6.53	588,075	–	(79,962)	(34,875)	473,238
Batch 6	7.20	83,000	–	(2,250)	(27,500)	53,250
Batch 7	11.16	700,000	–	(20,050)	(104,600)	575,350
Batch 8	15.72	954,000	–	–	–	954,000
Batch 9	14.66	–	556,000	–	–	556,000
		17,170,989	556,000	(3,257,847)	(1,213,655)	13,255,487
Exercisable at the end of the year 2014						3,258,913
Weighted average exercise price		HKD5.79				HKD6.41

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

The fair value of the options granted on 11 May 2015 was approximately RMB2,966,000. The fair value was calculated using the Binomial option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD27.75
Exercise price	HKD27.75
Risk-free interest rate	1.652%
Expected volatility	55.79%
Expected dividend yield	1.44%

Expected volatility was determined with reference to the annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price.

The Group recognised the total expense of approximately RMB5,034,000 for the year ended 31 December 2015 (2014: RMB7,068,000) in relation to share options granted by the Company.

Upon the disposal of 91 Group, few participants of 91 Group under the Scheme are no longer staff of the Group. The share options of these participants shall not lapse on the date of the Disposal and shall continue to have effect under the Scheme. The Group recognised the total expense of approximately RMB285,000 for the year ended 31 December 2015 (2014: RMB484,000) in relation to these share options granted.

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme by the Company

Pursuant to a circular to shareholders of the Company dated 3 September 2008, the Company introduced a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The rationale of the Share Award Scheme is to recognise the contributions by certain employees and to provide incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The selected employee are not required to pay for the grant of the Award or for the shares allotted or allocated pursuant to the Award.

The aggregate number of the Award is not permitted to exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The eligibility of employees to participate in the Share Award Scheme and number of shares which are the subject of each Award at each date of grant to a selected employee in accordance with the Share Award Scheme shall be determined at the absolute discretion of the committee, which comprised the directors of the Company duly appointed by the board of directors to administer the Share Award Scheme (the "Committee"), which shall take into consideration various factors including the general financial condition of the Group, the rank and performance of the relevant employee and such other general criteria as the Committee may consider appropriate as well as other limitations set forth under the Rules Governing the Listing of Securities on the Stock Exchange and those rules of the Share Award Scheme.

In determining the number of shares to be awarded each year the Committee shall have reference to the financial performance of the Group as reflected in the profit before taxation of the financial year.

The grant of the Award to the selected employee shall be accepted by the selected employee within 28 days from the date of offer. The selected employee may accept or refuse the whole but not part of a grant of the Award. If the grant of the Award is not accepted by the selected employee within 28 days from the date of offer, the offer shall upon the expiry of the 28 days period automatically lapse and shall be null and void.

Performance conditions (the "Performance Conditions") refers to the condition or conditions imposed by the Company on the selected employee's employment with the Company which must be fulfilled or satisfied by the selected employee prior to his eligibility for the Award. Performance period refers to the period of a participant employment with the Group which is used to assess the selected employee's work performance for the purpose of determining the grant of the selected employee's award.

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme by the Company (Cont'd)

The current Performance Conditions proposed by the Committee is that shares will only be vested to the employees after rendering services for certain period. Each employee needs to render the agreed period of service in order to be entitled to the shares granted.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group reversed the total expenses of approximately RMB152,000 for the year ended 31 December 2015 (2014: recognised the total expenses of approximately RMB3,166,000) in relation to share awards.

Movements in the share awards granted during the year ended 31 December 2015 are as follows:

Name of category of participant	Date of grant	Outstanding at 1 January 2015	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2015
Directors	31 December 2012	354,636	–	(118,212)	–	236,424
Other employees	31 December 2012	597,567	–	(119,513)	(239,027)	239,027
		952,203	–	(237,725)	(239,027)	475,451

Among the Award granted on 31 December 2012, 317,397 share awards vested on 9 February 2013, 317,400 share awards vested on 9 February 2014, 237,725 share awards vested on 9 February 2015, 237,725 share awards will vest on 9 February 2016 and the remaining 237,726 share awards will vest on 9 February 2017 and 239,027 share awards forfeited in 2015.

39. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(iii) Share awarded by a subsidiary of the Company

Pursuant to the announcement of the Company dated 10 January 2013, a direct wholly owned subsidiary of the Company, NetDragon Websoft Inc. has awarded 6,114,500 shares of 91 Limited to certain selected participants of the Group. Among the shares awarded, 1,528,625 shares were entitled by the selected participants on 9 January 2013, 1,528,625 shares were entitled by the selected participants on 1 January 2014, 1,528,625 shares were entitled by the selected participants on 1 January 2015 and the remaining 1,528,625 shares will be entitled by the selected participants on 1 January 2016.

Fair value of the shares awarded at the grant date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the grant date. The fair value of the shares awarded on 9 January 2013 was approximately RMB70,165,000.

The Group recognised the total expenses of approximately RMB5,649,000 for the year ended 31 December 2015 (2014: RMB14,175,000) in relation to the shares awarded on 9 January 2013.

Upon the disposal of 91 Group with effective from 1 October 2013, certain participants of 91 Group under the Scheme are no longer the employees of the Group and the shares awarded to these participants shall be lapsed. However, the board of directors have approved shares awarded to these employees to continue to have effect as stated in the relevant letters of grant initially issued by a subsidiary of the Company. The Group recognised the total expenses of approximately RMB521,000 for the year ended 31 December 2015 (2014: RMB1,286,000) in relation to these shares awarded.

1,528,625 shares awarded were released on 9 January 2013, 1,528,625 shares awarded were released on 1 January 2014 and 1,528,625 shares awarded were released on 1 January 2015. 1,528,625 shares to be awarded to those selected participants will be released in 2016.

40. ACQUISITION OF SUBSIDIARIES

Acquisition of Promethean Group

On 10 July 2015, the Group entered into a co-operation agreement to acquire 100% equity interests of Promethean Group at a maximum aggregate cash consideration of GBP84.8 million (equivalent to approximately RMB820 million). The transaction was completed on 2 November 2015. Promethean Group is principally engaged in creating, developing, support and sale of education hardware and software products for the education market globally.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Non-current assets	
Property, plant and equipment	50,903
Intangible assets	763,745
Deferred tax assets	3,736
Current assets	
Inventories	111,329
Trade receivables	184,908
Other receivables, prepayments and deposits	19,699
Derivative financial assets	400
Tax recoverable	9,563
Bank balances and cash	10,877
Assets classified as held for sale	2,723
Current liabilities	
Trade and other payables	(287,709)
Deferred income	(61,735)
Provisions	(34,671)
Borrowings	(63,358)
Income tax payable	(6,985)
Non-current liabilities	
Provisions	(2,524)
Deferred tax liabilities	(144,388)
Net assets acquired	556,513

40. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Promethean Group (Cont'd)

Goodwill arising on acquisition of Promethean Group

	RMB'000
Consideration transferred	820,242
Less: Fair value of identifiable net assets acquired	(556,513)
Goodwill arising on acquisition	263,729

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of Promethean Group

	RMB'000
Consideration paid in cash	820,242
Less: Cash and cash equivalent balances acquired	(10,877)
	809,365

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2015 is the loss of approximately RMB44,455,000 attributable to the additional business generated by Promethean Group. Revenue for the year ended 31 December 2015 includes RMB156,265,000 generated from Promethean Group.

Had the acquisition been completed on 1 January 2015, total group revenue for the year ended 31 December 2015 would have been RMB2,138 million, and loss for year ended 31 December 2015 would have been RMB504 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

40. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of 蘇州馳聲信息

On 1 June 2015, the Group entered into an agreement with independent third parties to acquire 100% equity interests of 蘇州馳聲信息 at a consideration of RMB84,853,000. The consideration was partly satisfied by cash and is partly satisfied by the allotment and issue of 9,591,159 new shares of Best Assistant, an indirect non-wholly owned subsidiary of the company. The transaction was completed on 27 August 2015. 蘇州馳聲信息 is principally engaged in voice and speech technology and software development.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Non-current assets	
Property, plant and equipment	1,914
Intangible assets	57,675
Current assets	
Trade receivables	433
Other receivables, prepayments and deposits	503
Bank balances and cash	2,380
Current liability	
Trade and other payables	(1,225)
Non-current liability	
Deferred tax liabilities	(7,924)
Net assets acquired	53,756

Goodwill arising on acquisition of 蘇州馳聲信息

	RMB'000
Consideration transferred	84,853
Less: Fair value of identifiable net assets acquired	(53,756)
Goodwill arising on acquisition	31,097

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

40. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of 蘇州馳聲信息 (Cont'd)

Net cash outflow on acquisition of 蘇州馳聲信息

	RMB'000
Consideration paid in cash	74,000
Less: Cash and cash equivalent balances acquired	(2,380)
	71,620

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2015 is the loss of approximately RMB4,188,000 attributable to the additional business generated by 蘇州馳聲信息. Revenue for the year ended 31 December 2015 includes RMB2,144,000 generated from 蘇州馳聲信息.

Had the acquisition been completed on 1 January 2015, total group revenue for the year ended 31 December 2015 would have been RMB1,279 million, and loss for year ended 31 December 2015 would have been RMB190 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition of Cherrypicks Group

On 3 June 2014, the Group entered into an agreement with an independent third party to acquire 100% equity interests of Cherrypicks Group at a consideration of USD26,051,000 (equivalent to RMB160,211,000). The consideration was partly satisfied by cash and partly satisfied by the allotment and issue of 2,626,204 new shares of the Company credited as fully paid up at an issue price of HKD13.3653 (the "Consideration Shares"). The Consideration Shares were allotted and issued pursuant to the general mandate to allot and issue shares representing 20% of the issued share capital of the Company as at 23 May 2014 granted to the directors by the shareholders at the annual general meeting of the Company on 23 May 2014. The transaction was completed on 21 July 2014. Cherrypicks Group is a leading enterprise in mobile solution and mobile marketing in the Asia Pacific region.

40. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Cherrypicks Group (Cont'd)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Non-current assets	
Property, plant and equipment	893
Intangible assets	139,362
Current assets	
Trade receivables	4,404
Other receivables, prepayments and deposits	1,698
Amounts due from related companies	6,267
Bank balances and cash	6,015
Current liabilities	
Trade and other payables	(7,312)
Amount due to ultimate shareholder	(6,170)
Amounts due to related companies	(5,710)
Deferred income	(68)
Borrowings	(3,378)
Income tax payable	(3,218)
Non-current liability	
Deferred tax liabilities	(51)
Net assets acquired	132,732

40. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Cherrypicks Group (Cont'd)

Goodwill arising on acquisition of Cherrypicks Group

	RMB'000
Consideration transferred	160,211
Less: Fair value of identifiable net assets acquired	(132,732)
Goodwill arising on acquisition	27,479

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of Cherrypicks Group

	RMB'000
Consideration paid in cash	110,785
Less: Cash and cash equivalent balances acquired	(6,015)
Add: Shareholder's loan	6,170
	110,940

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2014 was the profit of approximately RMB19,054,000 attributable to the additional business generated by Cherrypicks Group. Revenue for the year ended 31 December 2014 included RMB46,656,000 generated from Cherrypicks Group.

Had the acquisition been completed on 1 January 2014, total group revenue for the year ended 31 December 2014 would have been RMB982 million, and profit for year ended 31 December 2014 would have been RMB164 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition of other subsidiaries

On 29 May 2014, the Group entered into an agreement with an independent third party to acquire 70% equity interests of Catch Investments Limited and its subsidiary, Just Me Co., Limited (collectively referred to as the "Catch Group") at a consideration of RMB5,250,000. The transaction was completed on 20 June 2014. The Catch Group is engaged in the provision of artiste management services.

On 31 December 2013, the Group entered into an agreement with an independent third party to acquire 51% equity interests of 恒康（福建）醫療信息服務有限公司 ("恒康（福建）醫療") at nil consideration. The transaction was completed on 23 June 2014. 恒康（福建）醫療 is principally engaged in the provision of medical information enquires.

40. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of other subsidiaries (Cont'd)

Assets acquired and liabilities recognised at the date of acquisitions are as follows:

	RMB'000
Non-current asset	
Intangible assets	5,245
Current assets	
Trade receivables	118
Bank balances and cash	7
Current liability	
Trade and other payables	(3)
Net assets acquired	5,367

Non-controlling interests

In 2014, the non-controlling interests (30%) in the Catch Group and (49%) in 恒康（福建）醫療 recognised at the acquisition date were measured by reference to the proportionate share of fair value of identifiable assets and liabilities of the Catch Group and 恒康（福建）醫療 at the dates of acquisition.

Gain on bargain purchase on acquisition of other subsidiaries

	RMB'000
Consideration paid in cash	5,250
Add: Non-controlling interests	58
Less: Fair value of identifiable net assets acquired	(5,367)
	(59)

Net cash outflow on acquisition of other subsidiaries

	RMB'000
Consideration paid in cash	5,250
Less: Cash and cash equivalent balances acquired	(7)
	5,243

40. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of other subsidiaries (Cont'd)

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2014 was the loss of approximately RMB1,293,000 attributable to the additional business generated by the above subsidiaries. Revenue for the year ended 31 December 2014 included RMB48,000 generated from the above subsidiaries.

Had the acquisition been completed on 1 January 2014, total group revenue for the year ended 31 December 2014 would have no change, and profit for year ended 31 December 2014 would have been RMB169 million. The directors of the Group consider the 'pro-forma' result to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

41. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2015 RMB'000	2014 RMB'000
Non-current asset		
Investments in subsidiaries	**167,871**	167,871
Current assets		
Other receivables and prepayment	**415**	50,821
Amounts due from subsidiaries	**953,055**	1,297,356
Bank balances and cash	**54,880**	36,403
	1,008,350	1,384,580
Current liabilities		
Other payables	**31,270**	29,981
Amounts due to subsidiaries	**37,445**	26,681
	68,715	56,662
Net assets	**1,107,506**	1,495,789
Capital and reserves		
Share capital	**36,726**	36,943
Share premium and reserves	**1,070,780**	1,458,846
	1,107,506	1,495,789

41. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

	2015 RMB'000	2014 RMB'000
Movement in the Company's reserves:		
1 January	1,458,846	1,252,406
Repurchase and cancellation of shares	(70,095)	(152,308)
(Loss) profit for the year	(224,388)	469,343
Recognition of equity-settled share-based payments	5,167	10,718
Share issued upon exercise of share options	18,881	12,263
Share issued upon acquisition of subsidiaries	–	28,031
Dividends	(117,631)	(161,607)
31 December	1,070,780	1,458,846

42. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. The Group will balance its overall capital structure through the payment of dividends as well as issue new shares or return capital to owners.

43. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2015 RMB'000	2014 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,045,554**	3,524,371
Held-for-trading investments	**170,640**	211,584
Available-for-sale investments	**5,000**	5,000
Financial liabilities		
Amortised cost	**526,901**	424,628
Convertible preferred shares	**278,499**	–

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, amounts due from related companies, amounts due from associates, loan receivables, trade receivables, other receivables, pledged bank deposit, bank deposits, bank balances and cash, trade and other payables, amount due to a related company, amounts due to associates, secured bank borrowings and convertible preferred shares. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

43. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk

(i) Currency risk

The Group operates mainly in the PRC, the USA and the UK. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB, USD and GBP. However, the Group also has operations in Hong Kong and Europe and the business transactions conducted there during the year were mainly denominated and settled in HKD and EURO respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner.

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities (including loan receivables, trade receivables, other receivables, pledged bank deposit, bank balances and cash, trade and other payables and secured bank borrowing) at the end of the reporting period are as follows:

	Assets		Liabilities	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**34,627**	67,692	**2,682**	1,746
USD	**792,608**	1,238,306	**278,586**	268,205
GBP	**2,643**	—	**4,949**	—
EURO	**1,294**	880	**—**	—

43. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD, USD, GBP or EURO. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates (a decrease)/an increase in post-tax (loss) profit where RMB strengthen 5% against relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax (loss) profit.

	2015	2014
	RMB'000	RMB'000
Post-tax (loss) profit		
HKD	**(1,198)**	(2,473)
USD	**(19,276)**	(36,379)
GBP	**86**	—
EURO	**(49)**	(33)

A 5% increase and decrease in RMB against HKD, USD, GBP or EURO do not have a material impact on the other comprehensive income of the Group.

43. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(ii) Interest rate risk

The interest income is derived from the Group's bank deposits that carry interest at the respective banking deposit rate of the banks located in the PRC and Hong Kong and loan receivables.

The Group is exposed to fair value interest rate risk in relation to fixed or floating-rate loan receivables (note 19), pledged bank deposit and secured bank borrowings (note 35). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The cash flow interest rate risk relates primarily to the Group's bank deposits (note 30) carried at prevailing banking deposit rates. The Group's bank deposits are short-term in nature and the exposure of the interest rate risk for bank deposits are considered minimal. It is the Group's policy to keep its borrowings at floating-rate of interest so as to minimize the fair value interest rate risk. The cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2014: 50 basis points) increase or decrease in LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2014: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax (loss) profit for the year ended 31 December 2015 would increase/decrease by RMB94,000 (2014: RMB1,184,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

43. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings and there is no significant concentration of credit risk.

The Group has no significant concentration of credit risk on trade and other receivables with exposure spreading over a number of counterparties and customers.

43. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturity for its non-derivative and derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating-rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instrument. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settles on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instrument is prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivative.

43. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2015					
Trade and other payables	–	477,150	12,723	489,873	489,873
Amount due to a related company	–	2,254	–	2,254	2,254
Amounts due to associates	–	9,632	–	9,632	9,632
Secured bank borrowings	2.93	25,879	–	25,879	25,142
Convertible preferred shares	15.32	321,165	–	321,165	278,499
		836,080	12,723	848,803	805,400
2014					
Trade and other payables	–	184,641	1,283	185,924	185,924
Amount due to a related company	–	1,891	–	1,891	1,891
Amount due to an associate	–	8	–	8	8
Secured bank borrowing	1.375	239,847	–	239,847	236,805
		426,387	1,283	427,670	424,628

43. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Fair value

The fair value of financial assets and financial liabilities (including a derivative financial instrument) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis or using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Financial assets/ financial liabilities	Fair value as at 31 December 2015 RMB'000	31 December 2014 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Held-for-trading investments classified as financial asset	**170,640**	211,584	Level 1	Quoted bid prices in an active market	N/A	N/A
Convertible preferred shares	**278,499**	–	Level 3	Discounted cash flow using key input as follows: present worth of future economic benefits and discount rate that reflected credit risk of the Group.	Discount rate that reflected the expected rate of return that an investor would have to give up by investing in the subject investment.	The higher the discount rate, the lower the fair value.
					Company's share price estimated based on the expected revenue growth and profitability of the Group.	The higher the Company's share price, the higher the fair value.

There is no transfer between Level 1, Level 2 and Level 3 during both years.

44. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amounts of the assets pledged by the Group to secure the bank borrowings granted to the Group as set out in note 35 are as follow:

	2015	2014
	RMB'000	RMB'000
Property, plant and equipment	**44,233**	–
Bank deposits	**–**	236,805
	44,233	236,805

45. RETIREMENT BENEFITS PLANS

Defined contribution plan

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or HKD1,500 per person per month to the scheme, whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2015 made by the Group amounted to approximately RMB69,355,000 (2014: RMB34,684,000).

46. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by the Ultimately Controlling Shareholders, Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, who have entered into agreement to collectively govern the financial and operating policies of the Company and various subsidiaries.

The Group had the following significant related party transactions and balances during the year with certain companies in which some directors and shareholders of the Company can exercise significant influence or control.

Nature of transactions

	2015	2014
	RMB'000	RMB'000
Rentals charged by Fuzhou 851	**7,244**	6,816
Service fee at recreation centre paid to Fuzhou 851	**6,367**	5,000
After-sales service fee paid to Fuzhou Tianliang	**4,191**	9,767
Technical service fee paid to Fuzhou Tianliang	**903**	2,093
Interest received on loan advanced to key management	**(34)**	(106)
Goods purchased from 福建創思教育	**1,541**	–
Goods purchased from 福建一零一教育	**13,186**	–

Included in loan receivables in 2014 was a loan advanced to key management of approximately RMB1,000,000. The loan carried a fixed interest of 4.48% per annum.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2015	2014
	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	**14,328**	7,391
Contribution to retirement benefits schemes	**248**	154
Share-based payments expense	**3,146**	5,696
	17,722	13,241

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

47. DISPOSAL OF A SUBSIDIARY

On 28 November 2014, the Group disposed of its entire interest in 福建雅域酒店管理有限公司 ("福建雅域酒店") with consideration of RMB5,000,000. The net assets of 福建雅域酒店 at the date of the disposal were as follows:

	RMB'000
Consideration receivable	
Other receivable	5,000
Analysis of assets and liabilities over which control was lost	
Other receivables, prepayments and deposits	3,200
Bank balances and cash	2,213
Trade and other payables	(511)
Net assets disposed of	4,902
Gain on disposal of a subsidiary	
Consideration receivable	5,000
Net assets disposed of	(4,902)
Gain on disposal	98
Cash outflow arising on disposal	
Bank balances and cash disposed of	(2,213)

48. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2015 RMB'000	2014 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**234,394**	439,715

49. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of certain of its office premises under non-cancellable operating leases which fall due as follows:

	2015 **RMB'000**	2014 RMB'000
Within one year	**69,068**	31,139
In the second to fifth years inclusive	**130,480**	70,491
Over five years	**9,837**	7,850
	209,385	109,480

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 5 years for office premises. Rentals are fixed over the respective leases.

The Group as lessor

Property rental income earned during the year was approximately RMB2,598,000 (2014: RMB524,000). The property is expected to generate rental yields of 4.7% (2014: 3.3%) on an ongoing basis. The property held has committed tenants for the next 1.33 or 1.5 years.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2015 **RMB'000**	2014 RMB'000
Within one year	**4,445**	57
In the second to fifth years inclusive	**2,442**	52
	6,887	109

50. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2015 and 2014 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/registered capital	Proportion of registered capital/ issued share capital/equity interests and voting power held by the Company directly %		indirectly %		Principal activities
			2015	2014	**2015**	2014	
NetDragon Websoft Inc.	BVI	USD222,203.93	**100**	100	**–**	–	Investment holding
NetDragon (Fujian)*	PRC	RMB10,100,000.00	**–**	–	**–**	–	Operation of online games
TQ Digital #	PRC	RMB545,000,000.00	**–**	–	**100**	100	Development of online games and licensing and servicing of the developed games
NetDragon Websoft Inc.	USA	USD600,000.00	**–**	–	**100**	100	Provision of support services to the Group
NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司)	Hong Kong	HKD1.00	**–**	–	**100**	100	Licensing and servicing of the developed games and provision for support services to the Group
Glory More Limited (展凱有限公司)	Hong Kong	HKD1.00	**–**	–	**100**	100	Investment holding
TQ Online #	PRC	RMB555,000,000.00	**–**	–	**100**	100	Development of online games and licensing and servicing of developed games
福州網龍天像科技有限公司 # (Fuzhou NetDragon TianXiang Technology Inc.)	PRC	RMB50,000,000.00	**–**	–	**100**	100	Investment holding
Cherrypicks Limited (創奇思有限公司)	Hong Kong	HKD150,000.00	**–**	–	**100**	100	Mobile solution and mobile marketing business
Best Assistant	Cayman Islands	USD1,300,789.86	**–**	–	**86.14**	86.15	Investment holding
Fujian Tianquan Education Technology Limited (福建天泉教育科技有限公司) ("Fujian Tianquan")	PRC	RMB100,000,000.00	**–**	–	**86.14**	86.15	Operation and development of online education business
Fujian Huayu*	PRC	RMB200,000,000.00	**–**	–	**–**	–	Operation and development of online education business
Promethean World Limited^	UK	GBP20,320,000.00	**–**	–	**86.14**	–	Sale of education hardware and software products

50. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

* The Group's control over, and beneficial interest in the equity of, these entities exist by virtue of certain contractual arrangements entered into with the Ultimate Controlling Shareholders involving these entities, which are established as limited liability companies under PRC law. The Group does not hold ownership interest in the registered capital of these subsidiaries. However, under the contractual agreements entered into among the entities, the Ultimate Controlling Shareholders who are the owners of the registered capital of these entities and the Group, the Group controls these entities by way of controlling all voting rights in owners' meetings of these entities and governing their financial and operating policies. Under the contractual arrangements, management committees are established to oversee the businesses and operations of these entities in order to ensure and facilitate the implementation of the contractual arrangements. The management committees shall comprise members, all of whom have to be directors of TQ Digital and Fujian Tianquan subsidiaries of the Company, in order that the decision-making rights and the operating and financing activities of these entities are ultimately controlled by the Company. The Company is also entitled to substantially all of the operating profits and residual benefits by charging service fee equal to net profit generated by these entities under the contractual arrangements. In addition, the owners of the registered capital of these entities have irrecoverably authorised TQ Digital and Fujian Tianquan to exercise all their voting rights in NetDragon (Fujian) and Fujian Huayu, including the appointment and removal of the directors of these entities. As a result, these entities are regarded as subsidiaries under the control of the Group. Accordingly, the results of these entities, if any, and their assets and liabilities are included in the consolidated financial statements.

\# Wholly foreign owned enterprise.

^ Acquired during 2015.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

50. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong, the UK, the USA and the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	**Principal place of business**	**Number of subsidiaries**	
		2015	2014
Investment holding	Hong Kong	**15**	13
Investment holding	UK	**2**	–
Provision of support to the Group	the PRC	**15**	24
Provision of support to the Group	Hong Kong	**1**	4
Provision of mobile solution and mobile marketing business to the Group	Hong Kong	**3**	–
Provision of mobile solution and mobile marketing business to the Group	the PRC	**2**	–
Provision of mobile solution and mobile marketing business to the Group	Indonesia	**1**	1
Provision of education business to the Group	the PRC	**6**	–
Sale of eduation hardware and software products	UK	**2**	–
Sale of eduation hardware and software products	USA	**2**	–
Sale of eduation hardware and software products	Germany	**1**	–
Sale of eduation hardware and software products	France	**1**	–
Sale of eduation hardware and software products	the PRC	**1**	–
		52	42