

2016

Interim Report

NETDRAGON WEBSOFT HOLDINGS LIMITED
網龍網絡控股有限公司

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



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MANAGEMENT DISCUSSION AND ANALYSIS

(1) OPERATION INFORMATION

2016 Second Quarter Gaming Operational Metrics

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*):

	30 June 2016	Three months ended			
		31 March 2016	31 December 2015	30 September 2015	30 June 2015
PCU	776,000	748,000	752,000	761,000	708,000
ACU	347,000	332,000	317,000	360,000	318,000

Note: As at 30 June 2016, our online games include Conquer Online, Eudemons Online, Calibur of Spirit, Zero Online, Way of the Five, Tou Ming Zhuang Online, Tian Yuan and other games.

- ACU for online games was approximately 347,000, a 4.5% increase quarter-over-quarter and 9.1% increase year-over-year.
- PCU for online games was approximately 776,000, a 3.7% increase quarter-over-quarter and 9.6% increase year-over-year.
- Monthly average revenue per user for online games was approximately RMB246, a 3.5% decrease quarter-over-quarter and 0.4% decrease year-over-year.

MANAGEMENT DISCUSSION AND ANALYSIS



(2) FINANCIAL HIGHLIGHTS AND REVIEW

2016 Second Quarter Financial Highlights

- Revenue was RMB786.9 million: 37.7% increase quarter-over-quarter; and 195.8% increase year-over-year.
- Revenue from the games business was RMB296.7 million: 4.4% increase quarter-over-quarter; and 24.2% increase year-over-year.
- Revenue from the education business was RMB480.1 million: 71.5% increase quarter-over-quarter; and over 34 times increase year-over-year.
- Gross profit was RMB437.4 million: 26.3% increase quarter-over-quarter; and 96.1% increase year-over-year.
- Core segmental profit¹ from the games business was RMB99.4 million: 5.3% increase quarter-over-quarter; and 55.8% increase year-over-year.
- Core segmental loss¹ from the education business was RMB87.7 million: 34.3% decrease quarter-over-quarter; and 122.7% increase year-over-year.
- Non-GAAP² operating profit was RMB28.1 million as compared to non-GAAP operating loss of RMB111.8 million for the first quarter; such turnaround was mainly attributable to a combination of very strong performance of our international online education business as reflected in Promethean's positive operating profit during the quarter, as well as continuous profitability growth in the games business.
- Net profit attributable to owners of the Company was RMB70.7 million as compared to net loss attributable to owners of the Company of RMB113.6 million in the first quarter.

2016 First Half Financial Highlights

- Revenue was RMB1,358.5 million: 165.2% increase year-over-year.
- Revenue from the games business was RMB580.8 million: 25.4% increase year-over-year.
- Revenue from the education business was RMB760.0 million: 3,141.3% increase year-over-year.
- Gross profit was RMB783.9 million: 82.2% increase year-over-year.
- Core segmental profit¹ from the games business was RMB193.7 million: 82.5% increase year-over-year.
- Core segmental loss¹ from the education business was RMB221.1 million: 287.6% increase year-over-year.



MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL HIGHLIGHTS AND REVIEW (Cont'd)

Segmental Financial Highlights

(RMB'000)	FY2016 Q2		FY2016 Q1		FY2015 Q2	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	296,697	480,107	284,067	279,942	238,891	13,467
Gross profit	279,736	155,803	264,857	82,936	216,262	5,642
Gross margin	94.3%	32.5%	93.2%	29.6%	90.5%	41.9%
Core segmental profit (loss) ¹	99,356	(87,695)	94,314	(133,443)	63,755	(39,372)
Segmental operating expenses ³						
– Research and development	(82,060)	(91,390)	(77,344)	(87,848)	(71,509)	(24,550)
– Selling and marketing	(37,372)	(95,323)	(33,520)	(87,837)	(35,000)	(3,817)
– Administrative	(66,586)	(39,090)	(60,464)	(38,952)	(49,786)	(14,010)

Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with HKFRS 8) but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of financial instruments and fair value change of derivative financial instrument. In order to conform to the current period's presentation, certain comparative figures for prior reporting period have been reclassified.

Note 2: 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, amortisation of intangible assets arising on acquisition of subsidiaries and fair value change of remeasurement of previously held equity interest in an associate upon acquisition.

Note 3: Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortisation and exchange gain (loss) that have been grouped into SG&A categories on the Company's reported consolidated financial statements but cannot be allocated to specific business segments for purpose of calculating the segmental profit (loss) figures in accordance with HKFRS 8.



MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL HIGHLIGHTS AND REVIEW (Cont'd)

The following table sets forth the comparative figures for the second quarter of 2016, the first quarter of 2016 and the second quarter of 2015:

	Three months ended		
	30 June 2016 (Unaudited) RMB'000	31 March 2016 (Unaudited) RMB'000	30 June 2015 (Unaudited) RMB'000
Revenue	786,907	571,637	266,009
Cost of revenue	(349,481)	(225,192)	(42,948)
Gross profit	437,426	346,445	223,061
Other income and gains	63,151	15,611	29,989
Selling and marketing expenses	(134,777)	(122,214)	(39,307)
Administrative expenses	(162,141)	(191,584)	(118,172)
Development costs	(178,050)	(169,112)	(96,142)
Other expenses and losses	(16,646)	(6,772)	(3,186)
Share of profit (losses) of associates	213	(743)	(1,767)
Operating profit (loss)	9,176	(128,369)	(5,524)
Interest income on pledged bank deposit	—	—	1,600
Exchange (loss) gain on pledged bank deposit, secured bank borrowings and convertible preferred shares	(6,341)	2,192	646
Gain on derivative financial instrument	92,180	3,661	—
Net gain (loss) on held-for-trading investments	4,255	(3,245)	(991)
Finance costs	(2,031)	(2,737)	(823)
Profit (loss) before taxation	97,239	(128,498)	(5,092)
Taxation	(6,679)	(6,295)	(7,501)
Profit (loss) for the period	90,560	(134,793)	(12,593)
Profit (loss) for the period attributable to:			
– Owners of the Company	70,669	(113,563)	(7,460)
– Non-controlling interests	19,891	(21,230)	(5,133)
	90,560	(134,793)	(12,593)

MANAGEMENT DISCUSSION AND ANALYSIS

(3) BUSINESS REVIEW AND OUTLOOK

The Group is extremely delighted by the achievements in the second quarter of 2016 where the Company achieved a record-high quarterly revenue of RMB786.9 million fuelled by the dual growth engines in games and education businesses.

The online education business had an outstanding quarter as the Group experienced a remarkable 71.5% quarter-over-quarter growth and over 34 times increase year-over-year, which recorded a remarkable 71.1% increase in revenue quarter-over-quarter and 45.5% increase year-over-year on a pro forma basis, underpinned by the continuous market share gain in the worldwide market during the quarter. The success in gaining market share is a testament to the broad based acceptance of ClassFlow™, the game-changing cloud-based education software for the international markets.

The games business continued to register very strong momentum this quarter with 24.2% increase in revenue and 55.8% increase in core segmental profit year-over-year. Both Eudemons Online (魔域) and Eudemons online pocket version* (魔域口袋版) registered record high monthly revenue or monthly prepaid income during the quarter. Meanwhile, the Group is getting ready to launch the new games in Calibur of Spirit (英魂之刃) mobile version and Tiger Knight (虎豹骑) in the second half of 2016. The Group also have a strong pipeline of new games coming up in 2017, which the Group believe will propel the games business to a whole new level.

Looking forward, the Group expects to continue the current momentum and reap the rewards from the broad investments the Group has made into the games and education businesses in terms of research and development efforts as well as mergers and acquisitions that have granted access to technologies and new markets.

Games Business

The Company's games business continued its growth momentum in the second quarter of 2016, with revenue at RMB296.7 million, a 24.2% increase year-over-year. This solid performance was attributable to broad-based revenue growth of the major games. In particular, Eudemons Online (魔域) and Eudemons online pocket version* (魔域口袋版) both registered record high monthly revenue or monthly prepaid income during the quarter. Another flagship game, Calibur of Spirit (英魂之刃), also continued to further player base, with DAU (daily active users) of 1.8 million in April 2016.

In addition, various operational indicators continued to improve with an increase of 9.6% year-over-year of PCU at approximately 776,000, an increase of 9.1% year-over-year of ACU at 347,000.

Looking into the second half of 2016, the Company is excited as the Group gets ready to launch the long-awaited Calibur of Spirit (英魂之刃) mobile game. The Group is confident to see substantial revenue contribution from Calibur of Spirit (英魂之刃) mobile game after its launch. In addition, the Company expects to start generating revenue from Tiger Knight (虎豹骑), the new 3D action strategy game, by the end of 2016.

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MANAGEMENT DISCUSSION AND ANALYSIS



Riding on the success of Eudemons Online (魔域), the Company plans to launch an App for mobile devices for Eudemons Online (魔域) during the second half of 2016, aiming to provide better protection to users' accounts and improved user experience, which will help the Group to further strengthen player retention. The Company will also be launching significant new game-play features and monetization schemes in Calibur of Spirit (英魂之刃) in next half year which the Group is confident will drive up monthly gross revenue for this game. Furthermore, the English version of Calibur of Spirit (英魂之刃) will be launched by the end of 2016, and other languages, including German, French and Russian will also become available subsequently.

To further the Company's growth of the games business over the mid- to long-run, the Group has a strong pipeline of new games for 2017, which will leverage the existing game IPs as well as the proprietary technologies and know-how in gaming. In particular, the Group expects the Virtual Reality (VR) and Augmented Reality (AR) technologies to play a major role in the upcoming launches of new games. In addition to a robust pipeline, the Group also expects to leverage the sporting nature of Calibur of Spirit (英魂之刃) and the immense popularity of this game to create an e-sports online community which will open up to further monetization opportunities in the future.

Education Business

Revenue from the education business of the Company was RMB480.1 million for the second quarter of 2016, a 71.5% increase quarter-over-quarter and over 34 times increase year-over-year. This was largely due to the outstanding performance of the international education business, which recorded a remarkable 71.1% increase in revenue quarter-over-quarter and 45.5% increase year-over-year on a pro forma basis. Promethean, the international education business subsidiary, also recorded an operating profit for the second quarter of 2016 versus an operating loss in the first quarter of 2016, as a result of the increased revenue, improved gross margin and better cost control albeit significant increase of sales activities. ClassFlow™, the Company's flagship cloud-based interactive K-12 (Kindergarten-to-Grade 12) software for the international market, continued its growth in user base to nearly 750,000 registered users at the end of second quarter of 2016 (over 50% increase as compared to March 2016). The Company also continued to take market share as the Group has grown at a rate of more than 2.8 times the market growth in the K-12 interactive display market during the first half of the year and meanwhile has more than doubled the global market share in K-12 interactive flat panels, demonstrating the success of ClassFlow™ as being the key differentiation factor.

Revenue from the education business in China was RMB26.1 million in the second quarter of 2016, a 78.6% increase quarter-over-quarter and 93.5% increase year-over-year. While government funding started flowing in to schools across China starting from the second quarter of 2016, the Group expects such funding will drive significant revenue realization and securing of new sales contracts in the second half of 2016 for the online education smart classroom ecosystem featuring the flagship 101 Education PPT along with the broad offering of software components that cover pre-class lesson preparation, in-class collaborative lessons, after-school homework system, as well as customizable instant messaging designed specifically for education communities. The Group expects the bulk of this year's education revenue in China to be realized in the second half of 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

The Company continued to make strong progress in the second quarter of 2016 in its new product development and commercialization. The VR Editor, the flagship VR classroom application, is scheduled to be launched during the second half of 2016. The VR Editor will come with a wide range of “scenarios” and access to what the Company targets to be the largest 3D resource library for VR learning purpose. In terms of AR technologies, the Company has launched AR Wiz, the AR Editor which allows developers to power up applications with fun and engaging AR contents using the proprietary AR technologies. The joint venture with ARHT Media also made significant tractions in discussions with world-class celebrities and influential speakers to pave the way for the creation of O2O communities using hologram AR technologies. In the international K-12 markets, ClassFlow™ 5.0 was launched during the second quarter of 2016. In ClassFlow™ 5.0, marketplace has been extended to provide registered users with access not only to free resources but also to buy and sell resources via the ClassFlow™ platform. ClassFlow™ 5.0 also introduces several new features including ClassFlow™ Community, a discussion forum on educational or pedagogical issues, and Activity Builder that enables different types of activities to be readily inserted into lessons. The ClassFlow™ Moments smartphone app (for iOS and Android devices), which was recently launched, fosters communications between teachers and parents, and is expected to significantly increase user engagement outside of the classroom.

Looking forward, while the Company will continue to invest in the development of the products, the Group is confident that the product commercialization and revenue growth will continue its momentum into the second half of 2016.

Project in Haixi Animation Creativity (the “Project”)

The Group has made significant progress and will continue to invest in the Project, which is expected to constitute a majority of the capital expenditures going forward.

Corporate Milestones and Awards for the first half of 2016

Year 2016

May

Corporate Milestones/Recognitions

- Fujian NetDragon Websoft Co., Ltd. 「福建網龍計算機網絡信息技術有限公司」 was honoured as the “Top 30 Cultural Enterprise in the PRC at the Seventh Presentation Ceremony” * 「第八屆文化企業三十強」 jointly organized by the Guang Ming Daily (光明日報) and Economic Daily (經濟日報)
- Fujian TQ Online Interactive Inc. 「福建天晴在線互動科技有限公司」 was honoured as “Co-working space” * 「眾創空間」 by the Fuzhou Municipal People’s Government.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS



(4) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2016, we had bank deposits and bank balances and cash of approximately RMB1,034.6 million (31 December 2015: RMB1,710.0 million).

As at 30 June 2016, the Group had net current assets of approximately RMB1,033.8 million as compared with approximately RMB1,352.4 million as at 31 December 2015.

(5) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.03 (31 December 2015: 0.01). As at 30 June 2016, total bank borrowings of the Group amounted to approximately RMB121.3 million (31 December 2015: RMB25.1 million) were floating-rate loans and were secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

(6) CAPITAL STRUCTURE

As at 30 June 2016, the Group's total equity amounted to approximately RMB4,129.9 million (31 December 2015: RMB4,303.6 million).

(7) FOREIGN CURRENCY RISKS

The Group operates mainly in the PRC, the United States of America and the United Kingdom. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currencies of respective group entities, which are RMB, USD and GBP respectively. However, the Group also has business operations in Hong Kong and Europe and the business transactions conducted there during the period 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.

(8) CREDIT RISKS

As at 30 June 2016, 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 and a financial institution 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.



MANAGEMENT DISCUSSION AND ANALYSIS

(9) 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. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

(10) STAFF INFORMATION

For the period under review, the breakdown of the number of employees of the Group is set out below:

	At 30 June 2016	At 31 March 2016	At 30 June 2015
Research and development	3,135	2,991	2,093
Selling and marketing	1,169	1,091	721
Accounting, finance and general administration	931	917	725
Production	312	173	—
Total	5,547	5,172	3,539

(11) PERFORMANCE EVALUATION

HUMAN RESOURCES

The Group had its overall staff headcount of 5,547 as at 30 June 2016. During the period under review, the Group has achieved larger breakthrough in human resources management and received the "Top 100 PRC Internet Corporation in 2016" (「2016年中國互聯網企業100強」) and "Top 30 Cultural Enterprises in China at the Eighth Presentation Ceremony" (「第八屆全國文化企業三十強」).

1. As the leader of online games and mobile Internet operations industries in China, as well as the leading force of online education, corporate informatisation and VR/AR industries in China, the Group attracted numerous high-quality talents from professional fields with its wide development platform. 1,039 talents were recruited during the first half of 2016, representing a growth of 66.24% when compared with the same period in 2015. On top of the stable development of education business, the staff recruitment of VR projects also accounts for a significant position in order to lay a solid foundation for the Group 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. During the second half of 2016, the Group will organise Campus Recruitment Talks at various key universities well-known throughout the country, commencing the campus recruitment event in 2017.

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MANAGEMENT DISCUSSION AND ANALYSIS



2. The comprehensive group management level was enhanced while the establishment of future management teams was strengthened. The current management status was integrated, further clarifying the requirement for management staffs. The management staffs with practices in place were rewarded, incentivising the management staffs to perform their duties with more comprehensive depth, so as to enhance the overall management level of the Group. As for the establishment of back-up management teams, staffs with management potential will grow into core management staffs meeting the valuation of the Group through advanced cultivation. On one hand, staffs with high potential are incentivised and retained, on the other hand, a solid base for future management teams of the Group is developed.
3. Stringent appraisal for its projects was being optimised. The duties and authority of the management of project teams and each department were specified. By improving the existing performance appraisal method, execution efficiency was enhanced. The learning of the cultural system of the Group was strengthened by special topic "beauty talk system" to encourage active learning of the cultural system for the staffs. Helping the staffs to solidify the knowledge by the cultural system examination "3 questions per day", the "2016 100 teams battle – Effective Actions" event promoting cultural system learning has concluded its results. Changing the working behaviour of the staffs effectively through the aforementioned 3 steps, the identity of the staff with the Company's system was enhanced, thus raising the working efficiency of the staffs. With the amendment to the Staff Manual, the rules, regulations and provisions of the Company were optimised and enable the staff to better understand the system, articles and minefields of the Company. It also shows the corporate image, spreads the corporate cultural system as well as provides action guide for the new staffs.
4. The continuous improvement of the existing remuneration and welfare of the Group enhanced its competitiveness in the market. The remuneration policy inclines towards highly professional technical positions and management positions, attracting, retaining core talents of corporate value creation main bodies. The short-term incentive proposals was sorted and refined, the specially designed short-term incentive proposals of each business units was integrated, the correlation between the remuneration and corporate tactics and operating objectives was enhanced, the personal goals of the staffs and the organisational goals was lead to alignment, while the incentive function of remuneration was fully fulfilled. The benefit framework of the Group was sorted and the welfare standards of each branch organisations were confirmed. The benefits and cares of the foreign staffs were optimised, enhancing the sense of belonging of the foreign staffs.



MANAGEMENT DISCUSSION AND ANALYSIS

(12) STAFF TRAINING

I. Description of NetDragon University

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. In 2016, based on the tactical and business requirements of the Group, NetDragon University underwent adjustment for the departmental organisational framework, set up four functional modules (i.e. VR Training Centre, Certification Skills Development Centre, Experiential Learning Laboratory and Mobile Learning Laboratory) and trained the operation teams to train the management support department. The functional setting varies while the advancement proceeds with all strategic directions to develop an effective training system.

II. Achievements for the first half of 2016

In line with the strategic development and key business of the Group, NetDragon University focused on VR training through training courses, offline workshops and themed salon sharing etc. during the first half of the year to promote business. Meanwhile, based on the experiences from certification programme for learning operating know-how of specific positions, the 5 steps of establishing certification system for skills of different positions were sorted and applied to various centre departments such as arts centres and academy of engineering. In order to adapt to the transition of the Company into a design-oriented company, design theory certification was being promoted to be in line with 99 Design Salon (99設計沙龍) identifying skilled designers and bringing more creative ideas to the design centre. Regarding management training, a departmental project approach was adopted, fitting and satisfying the actual needs of the departments, and the training results was done well and deep-rooted by integrating online and offline O2O learning method.

During the first half of 2016, NetDragon University has commenced a total of 144 training events of various kinds, with an attendance of over 5,800 participants.

* For identification purpose only



MANAGEMENT DISCUSSION AND ANALYSIS



1. *As to project training:*

VR training projects: Based on the VR key business of the Company, the VR training centre of NetDragon University actively commenced the VR theme for internal staff training. Various forms of teaching such as offline lectures, experimental workshops, themed sharing salons were adopted. The VR training centre conducted VR themed trainings to corporate and institutional units such as Fuzhou Party School* (福州市黨校), Fuzhou Economy and Information Committee* (福州市經信委), Fujian Z.K. Litecore, fjsen.com and was invited to participate in events such as Wuyishan Internet economic leader talents training, the 4th Putian Internet leader talents training, promoting external expansion of the Company's VR business. Meanwhile, through various ways such as VR themed sharing salons, VR themed technology courses, the Company invited experts to present and share their experiences with the staff of the Company. During the first half of 2016, a total of 8 themed trainings of various types has commenced in the VR training centre, with approximately 450 people attended these trainings.

Certification project for skills of different positions: Based on a know-how learning system for major and knowledge-based positions including design (such as software development staff) and project management positions, NetDragon University has established a methodology of certification knowledge system for major skills in different positions, and aimed at various centres or departments such as arts centres, academy of engineering, Huayu, K12 education resource centres to perform certification for skills of different positions. During the first half of 2016, various certification learning systems and learning products for skills of different positions were released, such as Android software engineers in academy of engineering, multimedia designers in K12 trading resource centre, Huayu product operation, arts action groups, 2D scene groups, 3D scene groups, 2D character groups, 3D character groups, 2D post-production groups and special effect groups. During the second half of 2016, promotion of certification for skills of different positions will be geared towards more centres and departments by NetDragon University.

Certification project for learning officers: Targeting the need of internal training development for various centre departments in the Company, integrating the results and experience in training module of NetDragon University, facing towards the departmental training management staffs who initiated the certification project for learning officers, the certification project aims at cultivating a batch of talents capable of performing training-related events independently in the internal departments. The project consists of learning modules such as training organisation, meeting organisation, training advertisement, micro-class production. Adopting O2O learning method, a total of 7 online and offline learning was commenced. The project cultivated 35 qualified staff of learning officers. Meanwhile, an advanced high grade certification project for learning officers will be initiated during the second half of 2016.

Management training: "HR weekly school" project was co-initiated with the management centre. The resources of tutors and courses in the internal management centre were uncovered. Internal sharing was conducted with and facing towards the staff in the management centre. Knowledge sharing and exchanges between departments were procured. During the first half of the year, a total of over 15 themed sharing of various kinds was conducted, with an attendance of over 1,000 participants.

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MANAGEMENT DISCUSSION AND ANALYSIS

Experimental training: During the first half of 2016, a total of 4 external experimental trainings on team building were completed, with 160 people participated. The target of service covers corporate and institutional units such as Fuzhou Economy and Information Committee* (福州市經信委), Rongqiao Group* (融僑集團) and China Mobile. As for indoor trainings, a total 20 trainings was completed, with over 900 people covering various departments such as academy of engineering, K12 education resource centres and design centres.

Training new staffs: During the first half of 2016, the Group conducted 16 sessions of new staff training to new recruits.

Mobile learning platform: During the first half of 2016, there were 94 new online courses, with recently developed "compulsory learning" edition, optimising the function of online learning platform.

2. *As to course training:*

Technology & management training: During the first half of 2016, a total of 27 themed technology courses of various kinds were commenced, with nearly 600 participants and approximately 60 participants joined the management training courses .

99 Great Sharing Platform (99大享台): During the first half of 2016, these were 4 sharing sessions relating to design and VR themes, with 360 persons attended these sharings.

3. *As to certification items:*

During the first half of 2016, several company level certification items were being conducted, including safety technology certification, design theory certification and online education certification. Of which the safety technology certification in May 2016 commenced certification during the year. Nearly 900 participants joined the design theory primary certification while online education certification has accumulated over 1,800 participants.

(13) 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.

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MANAGEMENT DISCUSSION AND ANALYSIS



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.

(14) INTERIM DIVIDEND

On 31 August 2016, the Board has resolved to declare an interim dividend of HKD0.10 per share for the six months ended 30 June 2016 (2015: HKD0.10 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 15 September 2016. It is expected that the interim dividend will be distributed on or about 30 September 2016.

(15) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 15 September 2016 to Monday, 19 September 2016, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2016, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 14 September 2016.



OTHER INFORMATION

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

As at 30 June 2016, 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 (Chp 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 (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 and through a controlled corporation and beneficiary of a trust	254,138,457 (L)	51.19%
Liu Dejian / (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Leung Lim Kin, Simon / (Note 4)	The Company	Beneficial owner	100,000 (L)	0.02%
Liu Luyuan / (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	255,822,457 (L)	51.53%
Liu Luyuan / (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Zheng Hui / (Note 2)	The Company	Beneficial owner and through controlled corporations	254,138,457 (L)	51.19%
Zheng Hui / (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Chen Hongzhan / (Note 5)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.26%
Chao Guowei, Charles / (Note 6)	The Company	Beneficial owner	818,000 (L)	0.16%
Lee Kwan Hung / (Note 7)	The Company	Beneficial owner	1,036,519 (L)	0.21%
Liu Sai Keung, Thomas / (Note 8)	The Company	Beneficial owner	935,019 (L)	0.19%



OTHER INFORMATION



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 38.49% of the issued voting shares 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 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

Liu Luyuan is interested in 5.69% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 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 share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.49% and 3.83%, 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 0.32% of the issued shares of the Company which is represented by beneficial interest of 1,582,200 shares.

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 51.19% 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., 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 3.23%, 0.07% and 96.66%, 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 99.96% of the registered capital of NetDragon (Fujian).
4. Leung Lim Kin, Simon is interested in 0.02% of the issued voting shares of the Company which is represented by beneficial interest of 100,000 shares.
5. Chen Hongzhan is interested in 2.26% of the issued voting shares of the Company which is represented by personal interest of 71,000 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.
6. 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.
7. 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.
8. 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.



OTHER INFORMATION

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2016, 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.

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 30 June 2016, 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 shares held or amount of registered capital contributed	Approximate percentage of shareholding
			(Note 1)	
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	38.49%
IDG Group (Note 2)	The Company	Beneficial owner	78,333,320 (L)	15.78%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	78,333,320 (L)	15.78%
Zhou Quan (Note 2)	The Company	Through controlled corporations	73,490,095 (L)	14.80%
First Elite Group Limited (Note 3)	The Company	Beneficial owner and through controlled corporation	26,502,415 (L)	5.34%
Jardine PTC Limited (Note 3)	The Company	Trustee	26,502,415 (L)	5.34%



OTHER INFORMATION



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%, 10.47%, 2.14% and 0.98% 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.

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 30 June 2016.



OTHER INFORMATION

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 period ended 30 June 2016 are as follows:

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options			As at
			1 January	Granted	Exercised	Lapsed	30 June
			2016				2016
Executive Directors							
Liu Dejian	22.07.2011	4.60	85,200	—	85,200	—	0
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	85,200	—	85,200	—	0
Chen Hongzhan	22.07.2011	4.60	85,200	—	85,200	—	0
Independent non-executive Directors							
Chao Guowei, Charles	04.12.2013	15.72	238,500	—	—	—	238,500
Lee Kwan Hung	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	28.04.2011	4.80	2,840,729	—	2,000,875	169,627	670,227
	22.07.2011	4.60	115,575	—	15,000	—	100,575
	23.04.2012	5.74	762,862	—	230,875	30,818	501,169
	06.07.2012	6.53	363,238	—	17,950	—	345,288
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	426,950	—	42,000	—	384,950
	25.04.2014	14.66	556,000	—	—	—	556,000
	11.05.2015	27.75	214,000	—	—	—	214,000
Total			8,643,704	—	2,562,300	200,445	5,880,959

Notes:

- During the period under review, 255,600 share options were exercised by Directors of the Company.



OTHER INFORMATION



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 which would result in the nominal value of shares which are the subject of awards granted by the Board under the NetDragon Share Award Scheme representing in aggregate 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 30 June 2016, 268,199 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 prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

Among 218,212 vested awarded shares as at 30 June 2016, a total of 218,212 awarded shares were vested by the Directors.

Subject to the acceptance by the relevant selected employees, such 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.

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.



OTHER INFORMATION

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 30 June 2016, 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 a subscription agreement ("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. (together referred to as "IDG Investors"), Vertex Asia Fund Pte. Ltd. ("Vertex"), Alpha Animation and Culture (Hong Kong) Company Limited ("Alpha"), 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") for the allotment and issue of an aggregate of 180,914,513 Series A preferred Shares ("Series A Preferred Shares") for a total consideration of USD52,500,000 (equivalent to approximately HKD409.5 million). The Series A Agreement and the issue and allotment of the Series A Preferred Shares were completed on 13 February 2015. The Series A Preferred Shares represented 100% of all issued preferred shares of Best Assistant and accounted for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares.

Assuming all of the Series A Preferred Shares are fully converted into ordinary shares of Best Assistant, the Company's interest in ordinary shares of Best Assistant will be reduced from 86.15% to approximately 77.96%.

As at 30 June 2016, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

ACQUISITION OF CHERRYPICKS ALPHA RESOURCES LIMITED AND CHERRYPICKS ALPHA HOLDINGS LIMITED AND ITS SUBSIDIARIES

On 22 April 2016, Cherrypicks International Holdings Limited (the "First Purchaser") and NetDragon BVI (the "Second Purchaser"), both are wholly-owned subsidiaries of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Chiu Tsz Kiu Jason Felix (the "First Vendor") and Cherrypicks Alpha Holdings Limited (the "First Target Company"). Pursuant to the Sale and Purchase Agreement, (i) the First Vendor conditionally agreed to sell and the First Purchaser conditionally agreed to acquire the one ordinary issued share in the share capital of the First Target Company for consideration of USD1,500,000 and the incentive shares issued by the First Purchaser which represented 7.8% of the shareholding interest of the First Purchaser; and (ii) the First Target Company conditionally agreed to sell and the Second Purchaser conditionally agreed to acquire the entire issued share capital of Cherrypicks Alpha Resources Limited, a wholly-owned subsidiary of the First Target Company, for an aggregate consideration of USD3,160,000 which shall be satisfied in full by the allotment and issue of 1,087,621 new shares of the Company credited as fully paid up at an issue price of HKD22.6623 (the "Consideration Shares"). The completion of the Sale and Purchase Agreement took place on 19 May 2016. The Consideration Shares were allotted and issued on 19 May 2016 pursuant to the general mandate granted to the directors by the shareholders at the annual general meeting of the Company on 21 May 2015.



OTHER INFORMATION



Further details of the acquisition are set out in the announcements of the Company dated 22 April 2016, 3 May 2016 and 19 May 2016, respectively.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2016.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates (as defined under 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 the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the period under review, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

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 Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems, which include financial, operational and compliance controls and risk management functions.

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 continued connected transactions and connected transactions relating to structure contracts, other contracts and control documents of the Group.

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 terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's interim results for the six months ended 30 June 2016 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.



OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2016, the Company bought back a total of 4,840,000 shares on the Stock Exchange at an aggregate consideration of HKD93,386,630 before expenses.

Details of the shares buy-backs are as follows:

Month of shares bought back	Number of ordinary shares bought back	Price per share		Aggregate consideration paid
		Highest	Lowest	
		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
January 2016	4,840,000	21.25	17.40	93,386,630

By Order of the Board

NetDragon Websoft Holdings Limited

Liu Dejian

Chairman

Hong Kong, 31 August 2016



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



Deloitte.
德勤

**TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT HOLDINGS LIMITED
(FORMERLY KNOWN AS NETDRAGON WEBSOFT INC.)**

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Holdings Limited (formerly known as NetDragon Websoft Inc.) (the “Company”) and its subsidiaries set out on pages 27 to 62, which comprise the condensed consolidated statement of financial position as of 30 June 2016, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

31 August 2016



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016



		Six months ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
	NOTES		
Revenue	4	1,358,544	512,225
Cost of revenue		(574,673)	(81,971)
Gross profit		783,871	430,254
Other income and gains	4	78,762	56,533
Selling and marketing expenses		(256,991)	(70,133)
Administrative expenses		(353,725)	(225,098)
Development costs		(347,162)	(184,031)
Other expenses and losses		(23,418)	(8,742)
Share of losses of associates		(530)	(5,312)
Operating loss		(119,193)	(6,529)
Interest income on pledged bank deposit		—	3,190
Exchange (loss) gain on pledged bank deposit, secured bank borrowings and convertible preferred shares		(4,149)	646
Gain on derivative financial instrument		95,841	—
Gain on disposal of held-for-trading investment		—	1,401
Net gain (loss) on held-for-trading investments		1,010	(10,732)
Finance costs		(4,768)	(1,640)
Loss before taxation		(31,259)	(13,664)
Taxation	6	(12,974)	(11,994)
Loss for the period	7	(44,233)	(25,658)
Other comprehensive expense for the period, net of income tax:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(45,250)	(129)
Fair value loss on available-for-sale investment		(3,448)	—
Other comprehensive expense for the period		(48,698)	(129)
Total comprehensive expense for the period		(92,931)	(25,787)



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
NOTE			
Loss for the period attributable to:			
– Owners of the Company		(42,894)	(18,374)
– Non-controlling interests		(1,339)	(7,284)
		<u>(44,233)</u>	<u>(25,658)</u>
Total comprehensive expense attributable to:			
– Owners of the Company		(85,004)	(18,503)
– Non-controlling interests		(7,927)	(7,284)
		<u>(92,931)</u>	<u>(25,787)</u>
		RMB cents	RMB cents
Loss per share			
– Basic		(8.68)	(3.72)
– Diluted		(8.68)	(3.72)

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016



	NOTES	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	1,303,082	1,246,117
Prepaid lease payments	11	545,499	438,677
Investment properties	12	54,186	55,377
Intangible assets	13	867,766	953,950
Interests in associates	14	17,115	18,883
Available-for-sale investments		25,737	5,000
Loan receivables		26,227	23,081
Trade receivables	15	15,157	18,112
Deposits made for acquisition of property, plant and equipment		15,554	18,302
Goodwill	16	368,582	334,839
Deferred tax assets		3,199	3,611
		3,242,104	3,115,949
Current assets			
Inventories		143,836	117,584
Prepaid lease payments	11	6,789	2,733
Loan receivables		8,084	3,397
Trade receivables	15	457,150	234,733
Amounts due from customers for contract work		4,355	4,339
Other receivables, prepayments and deposits	18	131,454	115,918
Amount due from a related company	19	1,704	1,704
Amounts due from associates	19	1,847	11,204
Tax recoverable		3,013	11,159
Held-for-trading investment	20	171,650	170,640
Bank deposits		190,654	583,091
Bank balances and cash		843,919	1,126,957
		1,964,455	2,383,459
Assets classified as held for sale		—	2,690
		1,964,455	2,386,149



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

		30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
	<i>NOTES</i>		
Current liabilities			
Trade and other payables	21	468,604	507,592
Amounts due to customers for contract work		1,617	993
Provisions		30,543	29,373
Deferred income		84,467	85,039
Amount due to a related company	19	3,349	2,254
Amounts due to associates	19	2,147	9,632
Convertible preferred shares	22	188,504	278,499
Secured bank borrowings	23	121,293	25,142
Income tax payable		30,174	95,194
		930,698	1,033,718
Net current assets		1,033,757	1,352,431
Total assets less current liabilities		4,275,861	4,468,380
Non-current liabilities			
Other payables		8,922	12,723
Provisions		1,799	2,027
Deferred tax liabilities		135,282	149,993
		146,003	164,743
Net assets		4,129,858	4,303,637
Capital and reserves			
Share capital	24	36,607	36,726
Share premium and reserves		4,084,155	4,257,120
Equity attributable to owners of the Company		4,120,762	4,293,846
Non-controlling interests		9,096	9,791
		4,129,858	4,303,637



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016



Atributable to owners of the Company

	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Available-for-sale investment reserve	Retained profits	Total	Non-controlling interests	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	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 period	—	—	—	—	—	—	—	—	—	—	—	—	(18,374)	(18,374)	(7,284)	(25,658)
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(129)	—	—	(129)	—	(129)
Total comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(129)	—	(18,374)	(18,503)	(7,284)	(25,787)
Repurchase and cancellation of shares	(486)	(70,095)	486	—	—	—	—	—	—	—	—	—	(486)	(70,581)	—	(70,581)
Shares issued upon exercise of share options	230	22,364	—	—	—	—	—	—	—	(6,833)	—	—	—	15,761	—	15,761
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	2,035	—	—	—	2,035	—	2,035
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,082	(2,178)	—	—	1,096	—	—	—
Adjustment arising from transfer of associates to a nonwholly owned subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3,353	3,353
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	—	—	—	—	(110)	(69)	—	—	—	—	—	—	69	(110)	(16)	(26)
Final dividend for 2014 paid	—	—	—	—	—	—	(78,865)	—	—	—	—	—	480	(78,385)	—	(78,385)
Interim dividend for 2015	—	—	—	—	—	—	39,197	—	—	—	—	—	(39,197)	—	—	—
At 30 June 2015 (unaudited)	36,687	882,555	5,709	38,640	10,035	253,630	39,197	673	(3,253)	24,896	(59,478)	—	3,187,825	4,417,116	46,190	4,463,306



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company															
	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Available-for-sale investment reserve	Retained profits	Total	Non-controlling interests	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	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
Loss for the period	–	–	–	–	–	–	–	–	–	–	–	–	(42,894)	(42,894)	(1,339)	(44,233)
Other comprehensive expense for the period	–	–	–	–	–	–	–	–	–	–	(38,662)	(3,448)	–	(42,110)	(6,588)	(48,698)
Total comprehensive expense for the period	–	–	–	–	–	–	–	–	–	–	(38,662)	(3,448)	(42,894)	(85,004)	(7,927)	(92,931)
Repurchase and cancellation of shares	(357)	(78,585)	357	–	–	–	–	–	–	–	–	–	(357)	(78,942)	–	(78,942)
Shares issued upon exercise of share options	167	14,999	–	–	–	–	–	–	–	(4,437)	–	–	–	10,729	–	10,729
Shares issued upon acquisition of subsidiaries	71	20,805	–	–	–	–	–	–	–	–	–	–	–	20,876	–	20,876
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	2,276	–	–	–	2,276	–	2,276
Awarded shares vested to employees	–	–	–	–	–	–	–	–	993	(2,898)	–	–	1,905	–	–	–
Deemed disposal of subsidiaries to a non-controlling shareholder	–	–	–	(543)	–	–	–	–	–	–	–	–	–	(543)	7,585	7,042
Acquisition of additional equity interests from non-controlling interests	–	–	–	(887)	–	–	–	–	–	–	–	–	–	(887)	(99)	(986)
Acquisition of a nonwholly owned subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	861	861
Dividend paid to non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,115)	(1,115)
Final dividend for 2015 paid	–	–	–	–	–	–	(49,767)	–	–	–	–	–	8,178	(41,589)	–	(41,589)
Interim dividend for 2016	–	–	–	–	–	–	42,433	–	–	–	–	–	(42,433)	–	–	–
At 30 June 2016 (unaudited)	36,607	844,559	6,066	38,034	10,035	260,714	42,433	22,449	(2,260)	21,534	(86,680)	(3,448)	2,930,719	4,120,762	9,096	4,129,858



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016



		Six months ended 30 June	
	NOTE	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
NET CASH USED IN OPERATING ACTIVITIES		(395,450)	(31,187)
INVESTING ACTIVITIES			
Placement of bank deposits		(552,361)	(1,304,752)
Purchase of property, plant and equipment		(125,666)	(311,382)
Purchase of prepaid lease payments		(113,915)	(38,158)
Purchase of available-for-sale investment		(24,185)	—
Purchase of intangible assets		(15,445)	(5,640)
Acquisitions of subsidiaries	26	(9,579)	—
Deposits paid for acquisition of property, plant and equipment		(2,313)	(3,791)
Withdrawal of bank deposits		946,976	1,840,151
Proceeds from disposal of subsidiaries		—	61,396
Other investing activities		19,530	72,608
NET CASH FROM INVESTING ACTIVITIES		123,042	310,432
FINANCING ACTIVITIES			
New bank borrowings raised		844,581	—
Repayment of bank borrowings		(747,706)	—
Payment for repurchase of shares		(78,942)	(70,581)
Dividends paid		(41,589)	(78,385)
Proceeds from shares issued upon exercise of share options		10,729	15,761
Proceeds from issue of convertible preferred shares		—	260,359
Other financing activities		(1,168)	(265)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(14,095)	126,889
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(286,503)	406,134
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		1,126,957	1,036,788
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		3,465	(101)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH		843,919	1,442,821



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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.

Pursuant to the special resolution passed by the shareholders at the annual general meeting held on 19 May 2016, the name of the Company was changed from NetDragon Websoft Inc. to NetDragon Websoft Holdings Limited.

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, products and marketing business.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

4. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Revenue		
Online game revenue	580,764	463,221
Education revenue	760,049	23,449
Mobile solution, products and marketing revenue	17,731	25,555
	1,358,544	512,225
Other income and gains		
Government grants <i>(Note)</i>	50,367	10,845
Interest income	12,519	37,962
Net foreign exchange gain	6,734	—
Game implementation income	3,450	6,933
Gain on disposal of assets classified as held for sale	1,601	—
Rental income, net of negligible outgoing expenses	2,991	453
Server rental income	655	215
Others	445	125
	78,762	56,533

Note: Government grants were received from the government of the People's Republic of China (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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. 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.

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

Six months ended 30 June 2016

	Online game (Unaudited) RMB'000	Education (Unaudited) RMB'000	Mobile solution, products and marketing (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	580,764	760,049	17,731	1,358,544
Segment profit (loss)	73,984	44,756	(13,084)	105,656
Unallocated income and gains				14,986
Unallocated expenses and losses				(152,911)
Net gain on held-for-trading investment				1,010
Loss before taxation				(31,259)

Six months ended 30 June 2015

	Online game (Unaudited) RMB'000	Education (Unaudited) RMB'000	Mobile solution and marketing (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	463,221	23,449	25,555	512,225
Segment profit (loss)	116,987	(57,059)	(6,905)	53,023
Unallocated income and gains				39,941
Unallocated expenses and losses				(95,896)
Net loss on held-for-trading investments				(10,732)
Loss before taxation				(13,664)



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. SEGMENT INFORMATION (Cont'd)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned or loss incurred from each segment without allocation of share-based payments expense, net gain (loss) on held-for-trading investments, gain on disposal of held-for-trading investment, income tax expenses, and unallocated income, gains, expenses and losses. 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:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Online game	2,257,953	2,699,063
Education	2,178,866	1,841,183
Mobile solution, products and marketing	188,282	165,992
Total segment assets	4,625,101	4,706,238
Unallocated	581,458	795,860
	5,206,559	5,502,098

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 investment, 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

6. TAXATION

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
The tax charge comprises:		
Hong Kong Profits Tax	2,644	2,939
The PRC Enterprise Income Tax ("EIT")	16,210	8,972
Taxation in other jurisdiction	394	83
Deferred tax	(6,274)	—
	12,974	11,994

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2016 and 30 June 2015.

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

United Kingdom corporation tax rate applicable to subsidiaries is 20% for the six months ended 30 June 2016.

Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Loss for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	6,468	2,747
Other staff costs		
Salaries and other benefits	558,343	262,664
Contributions to retirement benefits schemes	48,002	28,586
Share-based payments expense	(277)	3,581
	<u>612,536</u>	<u>297,578</u>
Amortisation of intangible assets	63,800	9,125
Release of prepaid lease payments (included in administrative expenses)	3,037	1,445
Depreciation of property, plant and equipment	<u>71,412</u>	<u>52,216</u>
Total depreciation and amortisation	<u>138,249</u>	<u>62,786</u>
Cost of goods sold for education equipment	480,480	349
Operating lease rentals in respect of:		
– rented premises	31,204	20,883
– computer equipment	23,171	28,788
Gross rental income from investment properties	827	—
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	<u>—</u>	<u>—</u>
	<u>827</u>	<u>—</u>
Loss on disposal of property, plant and equipment	1,012	309
Adjustment arising from transfer of associates to a non-wholly owned subsidiary	—	3,353
Fair value change of remeasurement of previously held equity interest in an associate upon acquisition	1,075	—
Change in fair value of investment properties	2,273	—
Net foreign exchange (gain) loss	<u>(2,585)</u>	<u>3,963</u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

8. DIVIDENDS

On 15 June 2016, a dividend of Hong Kong dollars ("HKD") 0.10 per share (2015: HKD0.20 per share) was paid to shareholders as the final dividend for 2015. The aggregate amount of the final dividend paid in current interim period amounted to approximately RMB41,589,000 (2015: RMB78,385,000).

The directors of the Company have determined that an interim dividend of HKD0.10 per share (2015: HKD0.10 per share), amounting to approximately HKD49,648,000 (equivalent to approximately RMB42,433,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 15 September 2016.

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Loss for the purpose of basic and diluted loss per share:		
– loss for the period attributable to the owners of the Company	(42,894)	(18,374)

	Number of shares	
	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of shares in issue during the period for the purpose of basic loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	494,194	494,167
Effect of dilutive potential shares from the Company's share option scheme (Note)	—	—
Number of shares for the purpose of calculating diluted loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	494,194	494,167

Note: The calculation of diluted loss per share for the six months ended 30 June 2016 and 2015 does not assume the exercise of the Company's outstanding share options as the exercise of the Company's share options would result in a decrease in loss per share.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016



10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the deposits of approximately RMB5,061,000 were transferred to property, plant and equipment (six months ended 30 June 2015: RMB3,676,000) and the Group spent approximately RMB125,666,000 (six months ended 30 June 2015: RMB311,382,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB51,241,000 (six months ended 30 June 2015: RMB29,811,000) in plant and equipment and RMB62,540,000 (six months ended 30 June 2015: RMB259,175,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

11. PREPAID LEASE PAYMENTS

During the six months ended 30 June 2016, the Group spent approximately RMB113,915,000 (six months ended 30 June 2015: RMB38,158,000) for the acquisition of prepaid lease payments to expand its buildings located in Fuzhou. The Group is in the process of obtaining the land use right certificates. During the six months ended 30 June 2015, the deposits of approximately RMB24,639,000 were transferred to prepaid lease payments.

12. INVESTMENT PROPERTIES

The fair values of the Group's investment properties, including both land and building elements, as at 30 June 2016 and 31 December 2015 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 as at 30 June 2016 and 31 December 2015.

The fair value change of the investment properties for the six months ended 30 June 2016 was approximately RMB2,273,000 (six months ended 30 June 2015: nil), and was recognised in other expenses and losses.

13. INTANGIBLE ASSETS

During the six months ended 30 June 2016, the Group spent approximately RMB37,226,000 (including RMB21,781,000 acquired from the acquisition of subsidiaries) (six months ended 30 June 2015: RMB5,640,000) for the acquisition of intangible assets to expand its operations. The Group has no material write-off of intangible assets in both periods.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. INTERESTS IN ASSOCIATES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Unlisted investments:		
Cost of investments	31,572	31,572
Share of post-acquisition losses	(13,219)	(12,689)
Derecognition of an associate	(1,238)	—
	17,115	18,883
Group's share of net assets of associates	17,115	17,809

15. 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.

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Trade debtors		
0 - 30 days	328,590	126,351
31 - 60 days	82,471	63,674
61 - 90 days	9,998	19,197
Over 90 days	24,747	13,681
Receivables with extended credit terms		
Due within one year	11,344	11,830
Due after one year	15,157	18,112
	472,307	252,845



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016



16. GOODWILL

COST AND CARRYING VALUES

At the beginning of the period
 Arising on acquisition of subsidiaries (Note 26)

 At the end of the period

30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
334,839	40,013
33,743	294,826
368,582	334,839

Particulars regarding impairment testing on goodwill are disclosed in note 17.

17. 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 16 and 13 have been allocated to eight individual or groups of cash-generating units ("CGUs"), comprising three subsidiaries in the online game segment, three subsidiaries in the education segment and two subsidiaries in the mobile solution, products and marketing segment. The carrying amounts of goodwill and trademarks as at 30 June 2016 and 31 December 2015 allocated to these units are as follows:

	Goodwill		Trademarks	
	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Online game:				
CGU-1	6,104	—	—	—
CGU-2	8	—	—	—
CGU-3	13,724	—	—	—
	19,836	—	—	—
Education:				
CGU-4	12,534	12,534	—	—
CGU-5	31,097	31,097	—	—
CGU-6	263,729	263,729	254,025	277,137
	307,360	307,360	254,025	277,137
Mobile solution, products and marketing:				
CGU-7	27,479	27,479	—	—
CGU-8	13,907	—	—	—
	41,386	27,479	—	—
At the end of the period	368,582	334,839	254,025	277,137



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (Cont'd)

The recoverable amounts of the CGUs arising from online game, education and mobile solution, products and 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 14.36%, 14.36%, 20.79%, 14.36% (2015: 14.58%), 21.27% (2015: 14.58%), 13.66% (2015: 14.58%), 18.81% (2015: 16.59%) and 20.16% for each CGU respectively. Cash flows beyond five-year period is extrapolated using a steady growth rate ranging from 2.1% 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 six months ended 30 June 2016 and the year ended 31 December 2015, management of the Group determines that there is no impairment of any of its CGUs containing goodwill or trademarks with indefinite useful lives.

18. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

The balance mainly represents deposits and prepayments for education equipment and office and server rental of approximately RMB83,543,000 (2015: RMB72,643,000), other tax receivables of approximately RMB23,883,000 (2015: RMB14,825,000), interest receivables of approximately RMB1,416,000 (2015: RMB12,661,000) and other miscellaneous items for operating and investing activities.

19. AMOUNT(S) DUE FROM (TO) A RELATED COMPANY/ASSOCIATES

The amounts are unsecured, non-interest bearing and repayable on demand.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

20. HELD-FOR-TRADING INVESTMENT

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Unlisted overseas bond	171,650	170,640

The fair value of unlisted overseas bond is determined by reference to price provided by the financial institution.

21. TRADE AND OTHER PAYABLES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Trade payables	197,584	198,132
Accrued staff costs	104,574	133,786
Receipt in advance	32,568	30,442
Other tax payables (<i>Note a</i>)	14,930	15,430
Other payables and accruals (<i>Note b</i>)	118,948	129,802
	468,604	507,592

Notes:

- a. On 28 December 2011, 91 Wireless Websoft Limited ("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 Limited and its subsidiaries ("91 Group") on 1 October 2013, the eligible participants would be entitled to the merger consideration of United States dollars ("USD")13.168 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 (2015: RMB0.8 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, advertising payable, office and server rental payable and other miscellaneous items for operating and investing activities.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

21. 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.

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
0 - 90 days	181,714	137,998
91 - 180 days	13,261	57,186
181 - 365 days	1,844	2,297
Over 365 days	765	651
	197,584	198,132

22. CONVERTIBLE PREFERRED SHARES

Best Assistant Education Online Limited, 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. (which collectively own approximately 13.59% of the issued share capital of the Company), Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, DJM Holding Ltd. ("DJM", in which Mr. Liu Dejian and Mr. Zheng Hui, executive directors and beneficial owners of the Company, together have 100% equity interest), Creative Sky International Limited and NetDragon Websoft Inc. ("NetDragon BVI"), a direct wholly owned subsidiary of the Company on 13 February 2015. The Series A convertible preferred shares are denominated in USD.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016



22. CONVERTIBLE PREFERRED SHARES (Cont'd)

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.

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 fair value through profit or loss 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

22. CONVERTIBLE PREFERRED SHARES (Cont'd)

The movements of the Series A convertible preferred shares for the period are set out as below:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
At the beginning of the period	278,499	—
Issue of convertible preferred shares	—	260,474
Payment for repurchase of shares by the Group	(53)	—
Fair value change	(95,841)	2,521
Exchange realignment	5,899	15,504
At the end of the period	188,504	278,499

23. SECURED BANK BORROWINGS

The secured bank borrowings carry interest rate of 200 to 250 basis points over 30-day London Inter-Bank Offer Rate. The borrowings were secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

24. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2015, 31 December 2015 and 30 June 2016	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2015	499,861,262	4,998,613	36,943
Shares issued upon exercise of share options (<i>Note i</i>)	4,382,758	43,827	269
Repurchase and cancellation of shares (<i>Note ii</i>)	(6,570,000)	(65,700)	(486)
At 31 December 2015	497,674,020	4,976,740	36,726
Shares issued upon exercise of share options (<i>Note i</i>)	2,562,300	25,623	167
Repurchase and cancellation of shares (<i>Note ii</i>)	(4,840,000)	(48,400)	(357)
Shares issued upon acquisition of subsidiaries (<i>Note iii</i>)	1,087,621	10,876	71
At 30 June 2016	496,483,941	4,964,839	36,607

Notes:

- (i) During the six months ended 30 June 2016, 2,562,300 share options were exercised and as a result of 2,562,300 ordinary shares were issued (2015: 4,382,758). Approximately RMB167,000 (2015: RMB269,000) and RMB14,999,000 (2015: RMB27,149,000) were recorded as share capital and share premium, respectively.
- (ii) During the six months ended 30 June 2016, the Company repurchased 4,840,000 (2015: 6,570,000) 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 RMB78,942,000 (2015: RMB70,581,000).
- (iii) During the six months ended 30 June 2016, 1,087,621 ordinary shares (2015: nil) were issued as consideration for acquisition of Cherrypicks Alpha Resources Limited ("Cherrypicks Alpha Resources"). Approximately RMB71,000 (2015: nil) and RMB20,805,000 (2015: nil) were recorded as share capital and share premium, respectively.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

25. 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. 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.

The table below discloses movement of the Company's share options:

	Number of share options
Outstanding as at 1 January 2016	8,643,704
Forfeited during the period	(200,445)
Exercised during the period	<u>(2,562,300)</u>
Outstanding as at 30 June 2016	<u>5,880,959</u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD24.52.

The Group recognised the total expenses of approximately RMB1,287,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB2,721,000) 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 the staff of the Group. However, the share options of these participants shall not lapse on the date of the disposal, but shall continue to have effect under the Scheme. The Group recognised the total expense of approximately RMB80,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB137,000) in relation to these share options granted.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016



25. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme by the Company

The Company has 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 Group recognised the total expenses of approximately RMB909,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: recognised a reversal of expenses of RMB823,000) in relation to share award.

Among the Award granted on 31 December 2012, 118,212 share awards were vested and released during the six months ended 30 June 2016 (six months ended 30 June 2015: 237,725 share awards). 239,027 share awards were forfeited during the six months ended 30 June 2016 (six months ended 30 June 2015: 239,027 share awards). The number of share awards outstanding at 30 June 2016 was 118,212 (six months ended 30 June 2015: 475,451 share awards).

Among the Award granted on 21 January 2016, 149,987 share awards were granted during the six months ended 30 June 2016. 30,686, 39,426 and 79,875 share awards will be vested on 9 September 2016, 9 September 2017 and 1 September 2018, respectively.

Among the Award granted on 20 May 2016, 100,000 share awards were granted and vested during the six months ended 30 June 2016.

(iii) Shares 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 BVI 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 were 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.

No expense is recognised for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB2,806,000) 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. No expense is recognised for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB254,000) in relation to these shares awarded.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

26. ACQUISITION OF SUBSIDIARIES

Acquisition of 北京就是迷文化傳媒有限公司 (「北京就是迷」)

In January 2016, the Group entered into an agreement with independent third parties to acquire 100% equity interests of 北京就是迷 at a maximum aggregate cash consideration of RMB3,300,000. The transaction was completed on 1 February 2016. This subsidiary is principally engaged in organising art and cultural exchange activities.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	<i>RMB'000</i>
Non-current asset	
Property, plant and equipment	50
Current assets	
Deposits, prepayments and other receivables	19
Bank balances and cash	1
Current liability	
Other payables	(2,874)
Net liabilities recognised	<u>(2,804)</u>

Goodwill arising on acquisition of 北京就是迷

	<i>RMB'000</i>
Consideration transferred	3,300
Less: Fair value of identifiable net liabilities recognised	<u>2,804</u>
Goodwill arising on acquisition	<u>6,104</u>

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of 北京就是迷

	<i>RMB'000</i>
Consideration paid in cash	460
Less: Cash and cash equivalent balances acquired	<u>(1)</u>
	<u>459</u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016



26. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of 北京就是迷文化傳媒有限公司 (「北京就是迷」) (Cont'd)

Impact of acquisition on the results of the Group

Included in the loss for the six months ended 30 June 2016 was the loss of approximately RMB854,000 attributable to the additional business generated by 北京就是迷. No revenue was generated from 北京就是迷 for the six months ended 30 June 2016.

Had the acquisition been completed on 1 January 2016, total group revenue for the six months ended 30 June 2016 would have been RMB1,359 million, and loss for the six months ended 30 June 2016 would have been RMB44 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 廈門易用軟件技術有限公司 (「廈門易用」)

On 10 March 2016, the Group entered into share transfer agreements with independent third parties to acquire 20.96% controlling equity interests of 廈門易用 at a maximum aggregate cash consideration of RMB88,000. The transaction was completed on 23 March 2016. This subsidiary is principally engaged in provision of business management software application development.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	<i>RMB'000</i>
Non-current asset	
Property, plant and equipment	4
Current assets	
Deposits, prepayments and other receivables	26
Bank balances and cash	388
Current liability	
Other payables	(37)
Net assets acquired	<u>381</u>

Non-controlling interests

The non-controlling interests (36.14%) in 廈門易用 recognised at the acquisition date were measured by reference to the proportionate share of fair value of identifiable assets and liabilities of 廈門易用 at the date of acquisition.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

26. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of 廈門易用軟件技術有限公司 (「廈門易用」) (Cont'd)

Goodwill arising on acquisition of 廈門易用

	<i>RMB'000</i>
Consideration transferred	88
Add: Non-controlling interests	138
Add: Fair value of assets previously held	163
Less: Fair value of identifiable net assets acquired	<u>(381)</u>
Goodwill arising on acquisition	<u>8</u>

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash inflow on acquisition of 廈門易用

	<i>RMB'000</i>
Consideration paid in cash	88
Less: Cash and cash equivalent balances acquired	<u>(388)</u>
	<u>(300)</u>

Impact of acquisition on the results of the Group

Included in the loss for the six months ended 30 June 2016 was the profit of approximately RMB25,000 attributable to the additional business generated by 廈門易用. Revenue for the six months ended 30 June 2016 included RMB59,000 generated from 廈門易用.

Had the acquisition been completed on 1 January 2016, total group revenue for the six months ended 30 June 2016 would have been RMB1,359 million, and loss for the six months ended 30 June 2016 would have been RMB44 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016



26. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Cherrypicks Alpha Resources

On 22 April 2016, the Group entered into an agreement with an independent third party to acquire 100% interests of Cherrypicks Alpha Resources at a maximum aggregate consideration of USD3,160,000 (equivalent to approximately RMB20,876,000). The consideration was satisfied by the allotment and issue of 1,087,621 new shares of the Company credited as fully paid up at an issue price of HKD22.75 (the "Consideration Shares"). The Consideration Shares were allotted and issued on 19 May 2016 pursuant to the general mandate granted to the directors by the shareholders at the annual general meeting of the Company on 21 May 2015. The transaction was completed on 19 May 2016. This subsidiary is principally engaged in development and provision of products in augmented reality and computer vision with machine learning technology.

The assets acquired and liabilities recognised and the amounts recognised in these condensed consolidated financial statements for this acquisition have been determined provisionally. The professional valuation conducted by an independent valuer has not been finalised on the date when these condensed consolidated financial statements are authorised for issue.

Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis) are as follows:

	<i>RMB'000</i>
Non-current assets	
Property, plant and equipment	542
Intangible asset	10,204
Current assets	
Deposits, prepayments and other receivables	428
Amounts due from related companies	3,469
Bank balances and cash	222
Current liabilities	
Trade and other payables	(180)
Amounts due to related companies	(5,849)
Non-current liability	
Deferred tax liabilities	(1,684)
Net assets acquired	<u>7,152</u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

26. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Cherrypicks Alpha Resources (Cont'd)

Goodwill arising on acquisition of Cherrypicks Alpha Resources (determined on a provisional basis)

RMB'000

Consideration transferred	20,876
Less: Fair value of identifiable net assets acquired	(7,152)
	<hr/>
Goodwill arising on acquisition	13,724
	<hr/>

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash inflow on acquisition of Cherrypicks Alpha Resources

RMB'000

Consideration paid in cash	—
Less: Cash and cash equivalent balances acquired	(222)
	<hr/>
	(222)
	<hr/>

Impact of acquisition on the results of the Group

Included in the loss for the six months ended 30 June 2016 was the loss of approximately RMB638,000 attributable to the additional business generated by Cherrypicks Alpha Resources. Revenue for the six months ended 30 June 2016 included RMB9,000 generated from Cherrypicks Alpha Resources.

Had the acquisition been completed on 1 January 2016, total group revenue for the six months ended 30 June 2016 would have been RMB1,360 million, and loss for the six months ended 30 June 2016 would have been RMB37 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

26. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Cherrypicks Alpha Holdings Limited and its subsidiaries ("Cherrypicks Alpha Group")

On 22 April 2016, the Group entered into an agreement with an independent third party to acquire 100% equity interests of Cherrypicks Alpha Group at a maximum cash consideration of USD1,500,000 (equivalent to approximately RMB9,830,000) and the incentive shares issued by Cherrypicks International Holdings Limited ("Cherrypicks International") which represented 7.8% of the shareholding interest of Cherrypicks International. The transaction was completed on 19 May 2016. Cherrypicks Alpha Group is a leading enterprise in development and provision of mobile products in Proximity Detection, Indoor Positioning and intelligent bot technologies.

The assets acquired and liabilities recognised and the amounts recognised in these condensed consolidated financial statements for this acquisition have been determined provisionally. The professional valuation conducted by an independent valuer has not been finalised on the date when these condensed consolidated financial statements are authorised for issue.

Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis) are as follows:

	<i>RMB'000</i>
Non-current assets	
Property, plant and equipment	179
Intangible asset	11,577
Current assets	
Deposits, prepayments and other receivables	11
Bank balances and cash	188
Current liabilities	
Trade and other payables	(324)
Amounts due to related companies	(3,486)
Borrowing	(3,270)
Non-current liability	
Deferred tax liabilities	(1,910)
Net assets acquired	<u>2,965</u>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

26. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Cherrypicks Alpha Holdings Limited and its subsidiaries ("Cherrypicks Alpha Group") (Cont'd)

Goodwill arising on acquisition of Cherrypicks Alpha Group (determined on a provisional basis)

	<i>RMB'000</i>
Consideration transferred	16,872
Less: Fair value of identifiable net assets acquired	<u>(2,965)</u>
Goodwill arising on acquisition	<u><u>13,907</u></u>

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash outflow on acquisition of Cherrypicks Alpha Group

	<i>RMB'000</i>
Consideration paid in cash	9,830
Less: Cash and cash equivalent balances acquired	<u>(188)</u>
	<u><u>9,642</u></u>

Impact of acquisition on the results of the Group

Included in the loss for the six months ended 30 June 2016 was the loss of approximately RMB620,000 attributable to the additional business generated by Cherrypicks Alpha Group. No revenue from Cherrypicks Alpha Group was generated for the six months ended 30 June 2016.

Had the acquisition been completed on 1 January 2016, total group revenue for the six months ended 30 June 2016 would have been RMB1,359 million, and loss for the six months ended 30 June 2016 would have been RMB47 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

27. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by the Ultimate Controlling Shareholders, who have entered into an 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 balance during the period.

Name of related parties	Relationship
Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851")	DJM, the immediate holding company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, together have 100% equity interest in this entity
福州天亮網絡技術有限公司 ("Fuzhou Tianliang")	Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, acting under the instruction of the controlling shareholders of the Company
福建創思教育科技有限公司 (「福建創思教育」)	福建創思教育 is an associate of the Group which the Group holds 49% of the issued share capital in this entity
福建一零一教育科技有限公司 (「福建一零一教育」)	福建一零一教育 is an associate of the Group which the Group holds 49% of the issued share capital in this entity

Nature of transactions	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Rental charges by Fuzhou 851	3,635	3,609
Service fee at recreation centre paid to Fuzhou 851	3,500	2,867
After-sales service fee paid to Fuzhou Tianliang	4,202	2,769
Technical service fee paid to Fuzhou Tianliang	900	598
Goods purchased from 福建一零一教育 and 福建創思教育	5,554	—
Goods sold to 福建創思教育	(17)	—
Interest received/receivable on loan advanced to key management	(14)	(23)

Included in loan receivables at 30 June 2016 was loan advanced to key management of RMB3,329,000 (31 December 2015: nil), which is non-trade in nature, unsecured, repayable on 31 August 2016 and carries interest of 5% per annum.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

27. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Salaries, allowances and other short-term employee benefits	7,477	5,933
Contribution to retirement benefits schemes	134	117
Share-based payments expense	2,351	1,962
	<u>9,962</u>	<u>8,012</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that is measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000				
Held-for-trading investment classified as financial asset	171,650	170,640	Level 1	Quoted bid prices in an active market	N/A	N/A
Convertible preferred shares	188,504	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. Company's share price estimated based on the expected revenue growth and profitability of the Group.	The higher the discount rate, the lower the fair value. The higher the Company's share price, the higher the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Cont'd)

There is no transfer between Level 1, Level 2 and Level 3 during both periods.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the condensed consolidated financial statements approximate their fair values.

29. CAPITAL COMMITMENTS

At the end of reporting period, the Group had the following capital commitments:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	282,602	234,394

