2017 ANNUAL REPORT

網龍網絡控股有限公司

NETDRAGON WEBSOFT HOLDINGS LIMITED

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

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

英魂之刃 | 魔域 | 网龙华渔教育 | Promethean | 101教育PPT | CLASSFLOW

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

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

COMPLIANCE OFFICER

Mr. Liu Luyuan

COMPANY SECRETARY

Mr. Lau Hak Kin

QUALIFIED ACCOUNTANT

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SHARE AWARD SCHEME COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Mr. Lau Hak Kin

HONG KONG LEGAL ADVISER

Sidley Austin
Mayer Brown JSM

PRC LEGAL ADVISER

Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

CORPORATE INFORMATION

PRINCIPAL BANKERS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code

777

Listing Date

24 June 2008

Stock Name

NETDRAGON

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY WEBSITE

www.nd.com.cn

GROUP FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017 RMB'000**
Revenue	1,492,706	962,817	1,272,197	2,793,103	**3,867,623**
Cost of revenue	(159,638)	(102,844)	(314,161)	(1,203,234)	**(1,687,860)**
Gross profit	1,333,068	859,973	958,036	1,589,869	**2,179,763**
Other income and gains	51,956	157,101	187,927	163,018	**95,965**
Selling and marketing expenses	(167,804)	(152,495)	(206,778)	(519,662)	**(624,716)**
Administrative expenses	(441,132)	(326,934)	(520,104)	(720,967)	**(734,560)**
Development costs	(220,730)	(249,260)	(446,229)	(759,932)	**(844,076)**
Other expenses and losses	(25,225)	(34,027)	(24,092)	(61,134)	**(100,981)**
Share of losses of associates	(953)	(2,354)	(9,912)	(862)	**(822)**
Share of profit (loss) of a joint venture	796	–	–	–	**(567)**
Provision for product impairment	–	–	–	(77,774)	**–**
Operating profit (loss)	529,976	252,004	(61,152)	(387,444)	**(29,994)**
Interest income on pledged bank deposits	4,883	2,794	6,018	–	**2,558**
Exchange gain (loss) on pledged bank deposit, secured bank borrowings and redeemable convertible preferred shares/ convertible preferred shares	5,726	(5,081)	(15,504)	(21,824)	**3,250**
Net gain (loss) on redeemable convertible preferred shares/ convertible preferred shares	32,704	–	(2,521)	193,357	**2,809**
Net (loss) gain on other derivative financial instruments	(5,481)	6,817	(393)	–	**–**
Gain on disposal of available-for-sale investment	5,761	–	–	–	**–**
Net gain on disposal of held-for-trading investments	–	–	876	253	**35**
Net gain (loss) on held-for-trading investments	8,756	(17,304)	(9,144)	15,546	**23**
Gain on disposal of subsidiaries, net of related income tax	5,811,963	–	–	–	**–**
Finance costs	(15,526)	(3,212)	(5,431)	(8,650)	**(10,409)**
Profit (loss) before taxation	6,378,762	236,018	(87,251)	(208,762)	**(31,728)**
Taxation	(156,314)	(64,197)	(100,675)	(28,022)	**(57,209)**
Profit (loss) for the year	6,222,448	171,821	(187,926)	(236,784)	**(88,937)**

GROUP FINANCIAL SUMMARY

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Attributable to:					
– Owners of the Company	6,140,776	176,681	(142,979)	(202,742)	**(20,843)**
– Non-controlling interests	81,672	(4,860)	(44,947)	(34,042)	**(68,094)**
Profit (loss) for the year	6,222,448	171,821	(187,926)	(236,784)	**(88,937)**
Earnings (loss) per share					
– Basic (RMB cents)	1,213.44	34.77	(28.85)	(40.93)	**(4.12)**
– Diluted (RMB cents)	1,181.10	34.22	(28.85)	(40.93)	**(4.12)**

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	846,894	1,470,787	3,115,949	2,996,874	**3,140,286**
Current assets	4,603,095	3,759,600	2,386,149	1,782,094	**2,695,371**
Non-current liabilities	–	(1,399)	(164,743)	(234,603)	**(314,990)**
Current liabilities	(827,111)	(611,585)	(1,033,718)	(716,088)	**(1,036,606)**
Non-controlling interests	(7,736)	(50,489)	(9,791)	25,552	**65,106**
Equity attributable to owners of the Company	4,615,142	4,566,914	4,293,846	3,853,829	**4,549,167**

CHAIRMAN'S STATEMENT

Dear Shareholders

2017 was a special year for NetDragon as it marked our 10th year since listing. Over the last decade, I am proud to say we have transformed our online gaming business into a global leader in building internet communities. Building online communities has always been at the heart of our business, leveraging our proprietary technology, development capabilities and best in class data analytics to grow bigger and better. In 2015, we went one step further. We recognised the powerful synergies between gaming and the interactive learning market, and acquired Promethean to grow our international foot print with a global education giant. We are now stronger than ever, best placed to capture the market opportunities ahead.

Internet users and penetration rate worldwide continue to increase, it is estimated to reach 53.7% in 2021[1]. The trend aligns with our business strategy of building an online community integrating our gaming and learning business. With the increasing global opportunity, we are better equipped than ever to seize it. Our strong performance in 2017 is a testament to this. Our Group revenue for 2017 was RMB3,867.6 million, a 38.5% increase over 2016, of which our gaming revenue was RMB1,672.9 million, increased by 38.2% from 2016, while revenue from education increased 37.9% to RMB2,105.3 million. There is a lot more to come.

LEARNING

We had a remarkable year for NetDragon's education business across all the markets we operate in, with an estimated 2 million teachers using our ActivInspire software. Our revenue from education in 2017 reached RMB2,105.3 million, representing 54.4% of NetDragon's total revenue. This year, we acquired JumpStart which is a perfect example of NetDragon's expertise in combining and utilising both education and gaming businesses. Through this acquisition, we will tap into their excellent relationship with DreamWorks and utilize their IPs to enhance our existing products. It enables us to create innovative and exciting world-class learning products to our users. We also launched a closed beta version of our social commerce platform in December 2017 and received positive feedback from teachers.

In China, we made excellent progress in 2017 in terms of user engagement and user scaling activities. This includes launching teacher training programs nationwide, hosting courseware contests in targeted cities and provinces, as well as working closely with education bureaus. As a result, we exceeded our target and installed over 1.2 million units of our flagship software platform 101 Education PPT by the end of 2017.

1 Statista: Worldwide internet user penetration from 2014 to 2021

Belt and Road Initiatives have provided significant expansion opportunities for our education business with great success in target markets. We won a Moscow phase one tender to support their 'Smart City' initiative last year. We delivered on their expectations, and have been chosen again by the Moscow government for the second phase of the multi-year Moscow Online School project. We have also seen significant opportunities in other emerging countries, particularly in Turkey and Malaysia which we are making great progress on.

Since we entered the education market in 2015, we have grown the business both organically and inorganically. For 2018, we will continue to explore and evaluate any opportunities that could help broaden our offerings, but the focus will be to enhance synergies and provide an integrated offer to our users worldwide. With the complete product portfolio and successful user scaling efforts, we believe we are one step closer to becoming the largest learning community globally.

GAMING

Our China's gaming market continued to deliver solid growth in 2017. Total online gaming revenue reached RMB1,672.9 million, representing a 38.2% increase from 2016.

It is estimated China's games market, which includes those played on desktop personal computers and smartphones, was worth US$32.5 billion last year, which made up more than a quarter of the US$116 billion global games market[2]. In particular, the market size of the mobile gaming market in China is expected to reach RMB68.7 billion in 2018[3]. To capitalize on the market growth trend, I'm pleased to see that NetDragon's mobile gaming business is gaining traction with an increase of 92.2% year-over-year, contributing 18.1% to the total gaming revenue for 2017, compared with 13.0% in 2016.

Furthermore, we have also noticed encouraging signs in the spending power of our active quality users. In 2017, our objective was to enhance user experience for our users, and I am glad to announce that our ARPU reached RMB424, a 14.9% increase compared to 2016.

Looking forward, the Company will continue to maximize our IP values by introducing new games and new game-play features. After launching several new games in 2017, we expect to launch multiple new games in 2018, with a focus on mobile games.

2 Newzoo: Global Games Market Report

3 Statista: Market size of the mobile gaming market in China

CHAIRMAN'S STATEMENT

LOOKING AHEAD

In 2018, we expect our work on building online communities taking shape in a number of ways:

1) We will increase our investment in AI and big data to enhance user experience further;

2) Continue inroads with Wins in One Belt One Road countries;

3) Continue to build the largest online community; and

Finally, I would like to thank our Board of Directors, shareholders, employees and business partners for their unwavering support over the years, without which we would not be able to stand where we are today. I look forward to another exciting year ahead, and together, build a global community which we can all benefit from.

Thank you for your ongoing support.

Liu Dejian
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

(1) OPERATION INFORMATION

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

	Three months ended				
	31 December 2017	30 September 2017	30 June 2017	31 March 2017	31 December 2016
PCU	**762,000**	727,000	701,000	736,000	740,000
ACU	**335,000**	362,000	325,000	310,000	336,000

Note: As at 31 December 2017, our online and mobile games include Conquer Online, Eudemons Online, Heroes Evolved, Zero Online, Way of the Five, Tou Ming Zhuang Online, Tian Yuan, Conquer Online Pocket Version, Eudemons Online Pocket Version, Heroes Evolved Pocket Version, Pirate Arb and other games.

- Monthly average revenue per user for online and mobile games was approximately RMB424, a 14.9% increase year-over-year.
- ACU for online and mobile games was approximately 335,000, which was flat year-over-year.
- PCU for online and mobile games was approximately 762,000, a 3.0% increase year-over-year.

(b) Active paying accounts were approximately 752,000, a 27.2% increase year-over-year.

(c) Monthly active users were approximately 13,321,000, a 37.8% increase year-over-year.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL HIGHLIGHTS AND REVIEW

2017 Q4 Financial Highlights

- Revenue was RMB1,031.8 million, representing a 39.4% increase year-over-year.
- Revenue from the games business was RMB430.2 million, representing 41.7% of the Group's total revenue, registered a 25.5% increase year-over-year.
- Revenue from the education business was RMB575.3 million, representing 55.8% of the Group's total revenue, registered a 53.8% increase year-over-year.
- Gross profit was RMB561.6 million, representing a 33.4% increase year-over-year.
- Core segmental profit[1] from the games business was RMB161.9 million, representing a 65.4% increase year-over-year.
- Core segmental loss[1] from the education business was RMB126.3 million, representing a 20.0% decrease year-over-year.
- Non-GAAP[2] operating profit was RMB8.1 million, compared to non-GAAP[2] operation loss of RMB67.2 million for the same period last year.
- Loss attributable to owners of the Company was RMB51.7 million, compared to loss attributable to owners of the Company RMB94.4 million for the same period last year.

Fiscal Year 2017 Financial Highlights

- Revenue was RMB3,867.6 million, representing a 38.5% increase year-over-year.
- Revenue from the games business was RMB1,672.9 million, representing 43.3% of the Group's total revenue, registered a 38.2% increase year-over-year.
- Revenue from the education business was RMB2,105.3 million, representing 54.4% of the Group's total revenue, registered a 37.9% increase year-over-year.
- Gross profit was RMB2,179.8 million, representing a 37.1% increase year-over-year.
- Core segmental profit[1] from the games business was RMB675.1 million, representing an 81.6% increase year-over-year.
- Core segmental loss[1] from the education business was RMB423.3 million, representing a 12.7% decrease year-over-year.
- Non-GAAP[2] operating profit was RMB68.3 million, a significant turnaround compared to non-GAAP[2] operating loss of RMB239.8 million for last year.
- Loss attributable to owners of the Company was RMB20.8 million, compared to loss attributable to owners of the Company of RMB202.7 million for last year.
- The Board of Directors proposed a final dividend of HKD0.10 per share, subject to approval by shareholders in the coming Annual General Meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Segmental Financial Highlights

2017 Q4

	FY2017 Q4		FY2017 Q3		FY2016 Q4	
(RMB'000)	**Gaming**	**Education**	Gaming	Education	Gaming	Education
Revenue	**430,224**	**575,278**	440,229	595,935	342,711	374,029
Gross profit	**400,189**	**148,328**	409,997	168,175	317,256	101,256
Gross margin	**93.0%**	**25.8%**	93.1%	28.2%	92.6%	27.1%
Core segmental profit (loss)[1]	**161,946**	**(126,266)**	179,061	(107,850)	97,898	(157,737)
Segmental operating expenses[3]						
– Research and development	**(124,006)**	**(95,779)**	(112,645)	(107,346)	(107,229)	(109,949)
– Selling and marketing	**(49,015)**	**(115,668)**	(53,838)	(107,673)	(44,623)	(93,710)
– Administrative	**(73,111)**	**(47,601)**	(70,675)	(42,753)	(73,307)	(41,584)

Fiscal Year 2017

	FY2017		FY2016		Variance	
(RMB'000)	**Gaming**	**Education**	Gaming	Education	**Gaming**	**Education**
Revenue	**1,672,858**	**2,105,290**	1,210,034	1,526,298	**38.2%**	**37.9%**
Gross profit	**1,565,359**	**589,675**	1,127,851	455,431	**38.8%**	**29.5%**
Gross margin	**93.6%**	**28.0%**	93.2%	29.8%	**0.4%**	**(1.8)%**
Core segmental profit (loss)[1]	**675,117**	**(423,340)**	371,678	(485,176)	**81.6%**	**(12.7)%**
Segmental operating expenses[3]						
– Research and development	**(439,811)**	**(386,916)**	(357,916)	(384,904)	**22.9%**	**0.5%**
– Selling and marketing	**(199,971)**	**(415,392)**	(155,098)	(358,431)	**28.9%**	**15.9%**
– Administrative	**(277,695)**	**(159,156)**	(262,403)	(152,195)	**5.8%**	**4.6%**

Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with Hong Kong Financial Reporting Standard 8 ("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 convertible preferred shares.

Note 2: To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of non-GAAP operating profit (loss) measure is provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP operating profit (loss) measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating profit (loss) of the Group excludes share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, impairment loss on available-for-sale investment, write-off of inventories, impairment loss on property held for sale, impairment of property, plant and equipment and provision for product impairment.

Note 3: Segmental operating expenses exclude unallocated expenses such as depreciation and amortisation 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 fourth quarter of 2017, the third quarter of 2017 and the fourth quarter of 2016:

	Three months ended		
	31 December 2017 (Unaudited) RMB'000	30 September 2017 (Unaudited) RMB'000	31 December 2016 (Unaudited) RMB'000
Revenue	**1,031,771**	1,060,602	740,015
Cost of revenue	**(470,173)**	(475,716)	(318,982)
Gross profit	**561,598**	584,886	421,033
Other income and gains	**49,125**	9,315	77,795
Selling and marketing expenses	**(168,974)**	(163,252)	(139,852)
Administrative expenses	**(203,136)**	(186,571)	(195,168)
Development costs	**(223,164)**	(224,661)	(220,982)
Other expenses and losses	**(63,553)**	(20,222)	(27,620)
Share of losses of associates	**(272)**	(144)	(148)
Share of loss of a joint venture	**(416)**	(98)	–
Provision for product impairment	**–**	–	(77,774)
Operating loss	**(48,792)**	(747)	(162,716)
Interest income on pledged bank deposits	**927**	925	–
Exchange gain (loss) on pledged bank deposit, secured bank borrowings and convertible preferred shares	**1,455**	(84)	(11,942)
Net (loss) gain on convertible preferred shares	**(9,698)**	5,545	60,240
Net gain on disposal of held-for-trading investment	**–**	–	253
Net gain on held-for-trading investment	**–**	–	8,880
Finance costs	**(2,878)**	(2,804)	(1,955)
(Loss) profit before taxation	**(58,986)**	2,835	(107,240)
Taxation	**(12,329)**	(13,370)	(10,966)
Loss for the period	**(71,315)**	(10,535)	(118,206)
(Loss) profit for the period attributable to:			
– Owners of the Company	**(51,714)**	5,094	(94,413)
– Non-controlling interests	**(19,601)**	(15,629)	(23,793)
	(71,315)	(10,535)	(118,206)

MANAGEMENT DISCUSSION AND ANALYSIS

(3) BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is excited that the Group's endeavour in building online communities has started to bear fruits in 2017. The full year results for the year ended 31 December 2017 spoke for itself as not only did the Group return to non-GAAP profitability, it also experienced substantially improved operating cash flow as it reversed to positive RMB336.9 million from negative RMB270.3 million last year, supported by the robust performance in both gaming and education businesses. The gaming business had a record year as its revenue increased by 38.2% year-over-year to a historical high of RMB1,672.9 million. Mobile games were the major growth driver, with revenue increasing 92.2% year-over-year, as the mobile versions of the two flagship IPs, Eudemons Online (魔域) and Heroes Evolved (英魂之刃), were well-received by gamers during the year.

The Group was also pleased by the remarkable growth of the education business. The education business recorded revenue of RMB2,105.3 million for the year of 2017, up 37.9% year-over-year. In overseas markets, the revenue increased by 32.0% year-over-year to RMB1,775.8 million on the back of solid performance in both the US and emerging markets as Promethean further solidified its global market leading position in K12 interactive classroom technologies. In China, the revenue surged by 82.2% year-over-year to RMB329.5 million as the Group scaled quickly across major provinces and cities. On the user front, the installed base of the flagship platform 101 Education PPT in China exceeded 1.2 million as at the end of 2017, as a result of the aggressive rollout throughout the year. Looking forward, The Group expects to see substantial increase in the number of users as it continues to execute the strategies such that it will be one step closer to becoming the largest learning community globally.

Games Business

In the fourth quarter of 2017, the Group's gaming business revenue grew by 25.5% year-over-year to RMB430.2 million, primarily driven by the strong 85.2% year-over-year growth in mobile gaming revenue. On the other hand, the Group saw a broad-based uptick of key operating metrics including 14.9% increase in Monthly Average Revenue Per User ("ARPU"), 27.2% increase in Active Paying Accounts ("APA") and 37.8% increase in Monthly Active Users ("MAU") on a year-over-year basis.

On a full year basis, the gaming business revenue increased by 38.2% year-over-year. The above-industry growth rate was driven by the dual strategy of IP value maximization and mobile extension. This strategy has led to thirteen consecutive growing quarters on a year-over-year basis for the gaming revenue. During the year of 2017, the flagship IP Eudemons Online (魔域) had another record year as its revenue reached a historical high of RMB1,367.3 million, up 48.2% year-over-year, on the back of new launches, new gaming modes as well as refined monetization strategies. In particular, the PC version of Eudemons Online (魔域) delivered eight months of monthly gross billings over RMB100 million during the year of 2017, while the pocket version of Eudemons Online (魔域) reached a record high monthly gross billing in September 2017 and was ranked as the 'top ten most outstanding app by billings' on Tencent Open Platform in August 2017 and September 2017. With respect to new launches, the long-awaited flagship Eudemons Online Mobile (in partnership with Kingsoft) was officially launched in October 2017 and produced a gross billing of over RMB100 million in the first month of operation. The game did not disappoint as it was ranked as one of the "top five most outstanding app by billings" on Tencent Open Platform for four consecutive months from October 2017 to January 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Heroes Evolved (英魂之刃), another flagship IP, sustained its strong momentum. Following the rapid user ramp-up of the pocket version of Heroes Evolved (英魂之刃) in the first half of 2017, the Group accelerated monetization in the second half of 2017 as the revenue of the pocket version of Heroes Evolved (英魂之刃) more than doubled in the second half of 2017 versus the first half of 2017. Since launch in December 2016, this game has been downloaded by over 150 million players and was ranked as one of the "top three downloaded mobile games" on Tencent Open Platform for nine consecutive months in 2017.

Looking forward, the Group will continue to maximize the IP values by introducing new games and new game-play features. After launching several new games in 2017, the Group expects to launch multiple new games in 2018, with focus on mobile games. Finally, the Group will leverage the cutting-edge VR and AR technologies in order to bring unique gaming experience to gamers.

Education Business

For the fourth quarter of 2017, revenue from the education business was RMB575.3 million, a 53.8% increase year-over-year. In overseas markets, the Group recorded revenue of RMB380.4 million during the fourth quarter of 2017, up 31.4% from the same period of 2016. The Group solidified the number one international market share leadership position in K12 interactive technologies as it continued to gain market share in the major markets, particularly in Americas and EMEA regions.

The traction along One Belt One Road countries remained strong. On top of materializing the phase one order of the City of Moscow during the year of 2017, the Group is pleased to be the chosen partner again for the second phase of the multi-year Moscow Online School project. The second phase of the project is set to equip over 13,000 classrooms throughout the City of Moscow with the interactive learning technologies, a substantial increase compared with 7,600 classrooms in phase one. In addition, the Group is also the front runner of several multi-phase tenders in other emerging countries as it embraces the latest education technologies. In particular, the Group continues to see Turkey and Malaysia presenting significant revenue opportunities. Most importantly, Promethean achieved positive EBITDA of RMB53.0 million in 2017, a remarkable turnaround from the negative EBITDA of RMB50.6 million in 2016, as a result of the ongoing effort to drive revenue growth and rationalize costs aggressively following the acquisition in November 2015.

In China, the Group recorded revenue of RMB194.9 million in the fourth quarter of 2017, more than doubled from the same period of 2016, as a big portion of the contracted sales in previous quarters were recognized during the quarter of 2017. As at the end of the forth quarter of 2017, the China sales backlog, representing signed sales orders to be delivered to or validated by the customers, was RMB279.3 million. Of which, RMB99.8 million of contracted sales covering 31 provinces or cities were signed during the fourth quarter of 2017. The Group believed the rising traction is a validation of the products in the domestic market.

On the other hand, the Group is also pleased to see the tremendous progress in terms of user scaling. As at the end of 2017, the Group had over 1.2 million installations for the flagship software platform 101 Education PPT in China. This is on the back of the successful user acquisition strategy which adopts various ways of scaling users, including launching teacher training programs nationwide, hosting courseware contests in targeted cities and provinces, as well as working closely with education bureaus. With this critical mass of installed teachers in China, the Group will focus on increasing user engagement and stickiness, as it aims to make 101 Education PPT the platform of choice for delivery of digital classroom and content distribution in China.

MANAGEMENT DISCUSSION AND ANALYSIS

In the overseas markets, the Group currently has an estimated 2 million teachers using the ActivInspire desktop software. The Group has embarked on a product effort to develop platform capabilities that will augment ActivInspire with features to drive online engagement. These include new teaching tools, use of mobility as well as collaboration and sharing functions. This additional value will offer compelling reasons for the millions of teachers using ActivInspire to move into an online world where they can easily engage with students and create a rich collaborative learning environment. Together with the award-winning ClassFlow™ software, the Group will bring a truly connected interactive classroom experience to the estimated installed base of over 1.3 million classrooms, therefore enabling teachers and students to interact in an online, collaborative community where the Group expects to see significant online monetization opportunities. The Group also launched a closed beta version of the social commerce platform in December 2017 and it received highly positive feedback from teachers.

Looking forward, with the leading interactive classroom technologies and internet platform capabilities, the Group expects the rapid digitization of classrooms around the world will remain a huge tailwind for the business. The Group thanks all the shareholders for the support and it is excited about the huge potential of value creation for the shareholders in the coming years as it is now one step closer to becoming the world's largest learning community.

MANAGEMENT DISCUSSION AND ANALYSIS

Project in Haixi Animation Creativity City (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 in 2017

Year 2017	Corporate Milestones/Recognitions
March 2017	• Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") was awarded the honour of "Excellent Enterprises of the Game Industry" in China 2016 * 「中國遊戲行業2016 年度優秀企業」 by the Golden Thumb Awards Adjudication Committee (金手指獎評審委員會)
May 2017	• "NetDragon (Fujian)" was awarded the honour of "Interflow Activity Base for New Social Class in Fuzhou"* 「福州市新的社會階層人士交流活動基地」 by the CPC Fuzhou United Front Department (中共福州市委統戰部)
June 2017	• NetDragon (Fujian) was awarded the honour of "Top 100 Enterprises with Comprehensive Competitiveness in Software and Information Technology Service of China in 2017"* 「2017 中國軟件和信息技術服務綜合競爭力百強企業」 by China Information Technology Industry Federation (中國電子信息行業聯合會)
August 2017	• NetDragon (Fujian) was awarded the honor of "Top 100 Internet Enterprises of China in 2017"* 「2017 中國互聯網百強企業」 by Internet Society of China (中國互聯網協會) and the Information Centre of Ministry of Industry and Information Technology (工業和信息化部信息中心)
September 2017	• NetDragon (Fujian) was awarded the honour of "Top 20 Internet Enterprises of Fujian Province in 2017"* 「2017 福建省互聯網企業 20 強」 jointly organized by Internet Society of Fujian Province (福建省互聯網協會) and the Information Centre of Ministry of Industry and Information Technology (工業和信息化部信息中心)
October 2017	• NetDragon (Fujian) was awarded the honour of "The Best Career Development Platform"*「最佳職業發展平台獎」by Mercer Human Resource Management Fashion (美世人力資源管理團體)
November 2017	• NetDragon (Fujian) was awarded the honour of "Advanced Units in Press, Publication, Radio, Film and Television Statistics of Fujian Province in 2017"* 「2017 年度全省新聞出版廣播影視統計工作先進集體」 by Fujian Provincial Administration of Press, Publication, Radio, Film and Television (福建省新聞出版廣電局)
	• NetDragon (Fujian) was awarded the honour of "Most Influential Enterprises in the Copyright Industry of China in 2017"* 「2017 中國版權年度最具影響力企業」 by Copyright Society of China (中國版權協會)
December 2017	• NetDragon (Fujian) was awarded the honour of "Practice Teaching Base of Minjiang University"* 「閩江學院實踐教學基地」 by Minjiang University (閩江學院)

* *For identification purpose only*

(4) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2017, the Group had pledged bank deposits, restricted bank deposit, bank deposits, restricted bank balances and bank balances and cash of approximately RMB1,748.9 million (31 December 2016: RMB932.4 million).

As at 31 December 2017, the Group had net current assets of approximately RMB1,658.8 million as compared with approximately RMB1,066.0 million as at 31 December 2016.

(5) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.05 (31 December 2016: 0.01). As at 31 December 2017, total bank borrowings of the Group amounted to approximately RMB232.7 million (31 December 2016: RMB29.0 million) in which an amount of RMB225.2 million was floating-rate loans and the remaining balance was fixed-rate loans, and were secured by share pledges over the shares of a subsidiary and fixed and floating charges over the assets of certain subsidiaries, a pledged bank deposit, a pledge of property of a subsidiary, and corporate guarantee provided by the Company and subsidiaries.

(6) CAPITAL STRUCTURE

As at 31 December 2017, the Group's total equity amounted to approximately RMB4,484.1 million (2016: RMB3,828.3 million).

(7) FOREIGN CURRENCY RISK

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 currency of respective group entities, which is RMB, USD and GBP. However, the Group also has business operations in Hong Kong, Australia and Europe and the business transactions conducted there during the year were mainly denominated and settled in HKD, AUD and EURO respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(8) CREDIT RISK

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

(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.

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

CORPORATE CULTURE

Innovation

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

Customer comes first

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

Learning

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

Pursuit of excellence

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

Passion

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

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

Fairness

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

Aggressiveness

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

STAFF RELATIONSHIP AND WELFARE

HUMAN RESOURCES

The Group had an overall staff headcount of around 6,000 as at 31 December 2017.

I. In 2017, the Group continued to made efforts in areas of games and education by recruiting a total of 1,662 outstanding talents, of which 1,337 persons were from community recruitment while 285 talents from key universities from universities recruitment. The Group also organized Campus Recruitment Talks at 14 key universities in ten cities throughout the country, covering 111 universities of key universities in China. As a result, the recruitment rate of employees with good qualification from key universities increased by 17% as compared to the previous year.

II. The comprehensive expertise and management capacity of the Company's staff were further enhanced. Professional skills required for different types of positions were further sorted out according to work contents, while requirements for professional training of personnel were enhanced to strength professional training to meet business needs. In light of the current management status of the Group, higher requirement for staff of management positions were made and staff incapable of management positions were investigated and eliminated. Meanwhile, the world-famous management guru Ram Charan was invited to become the management consultant of the Company to help forge the basic qualities and abilities that excellent managers of NetDragon should process for formation of the "Philosophy of NetDragon's Management"*, to clarify responsibilities of management and requirements for managers, and to help managers enhance management capacity in a targeted way to establish a more professional and efficient managers team for the development of the Company. The personnel evaluation department was established to carry out customized evaluation with focus on the quality model of NetDragon's core talents so as to enhance the quality and effectiveness of staff recruitment, selection and appointment as well as upgrade of talents.

III. In order to strengthen management of the Company, the Group first completed the establishment of trade unions in early 2017, subsequently completed election of employees representatives through nomination by various departments and employee voting, and in June 2017, the Group organized the convening of the first session of employee representative meeting at which was voting for 11 systems to become effective for promoting the standardization of enterprise systems was completed, and the entry risk management process has been optimized which was strengthened risk prevention upon entry of employees.

* *For identification purpose only*

STAFF RELATIONSHIP AND WELFARE

IV. To promote the performance management process and help enhance employee performance, the Group has increased the requirements in areas of performance evaluation, interview and performance improvement to promote a fairer performance evaluation, help employees identify the gap between the status quo and the standards, and guide the staff through the next stage of development.

WORKING ENVIRONMENT

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Liu Dejian, aged 46, Chairman of the Board and Executive Director

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

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

in November 2013. As the developer of "91 assistant" software first person, Mr. Liu received the Progress Prize Second Award in Fujian Province Science and Technology* (「福建省科學技術進步二等獎」) in January 2014. Mr. Liu was awarded the Special Allowance Expert in State Council* (「國務院特殊津貼專家」) in January 2015, the Publishing Award for Outstanding People in Fujian Province* (「福建省優秀出版人物獎」) in September 2015, Excellent Leader in the Non-public Economy of Fujian Province* (「福建省非公有制經濟優秀建設者」) in May 2016 and the Economic Award of Chinese Businessman of 2016 (「2016 年度華人經濟人物」) in the same year. Mr. Liu was honored as Senior Engineer* (「享受教授、研究員待遇高級工程師」) with his outstanding technical achievements in May 2017. Mr. Liu is also a director of NetDragon Websoft (Hong Kong) Limited ("NetDragon (Hong Kong)") and NetDragon Websoft Inc. ("NetDragon (BVI)"). Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

Leung Lim Kin, Simon, aged 63, Vice Chairman of the Board, Executive Director, Chairman and Chief Executive Officer of Fujian Province Huayu Education Technology Limited* and Senior Vice President

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

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

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

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

Dr. Leung currently serves as a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business of the University of Western Ontairo, an educational institution, where he is primarily responsible for advising the school on its mission strategy in Asia. He is also a governor of Tung Wah College, an educational institution, where he is primarily responsible for determining key governance issues. From 2010 to 2015, Dr. Leung was a member of the International Advisory Committee of the Hong Kong Polytechnic University. From 2015 to 2017, he was appointed as a member of the Steering Committee on Innovation and Technology of HKSAR. Mr. Leung is also an independent non-executive director of Purapharm Corporation Limited (Stock Code: 1498) which is listed on the Main Board of the Stock Exchange of Hong Kong Limited.

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

Liu Luyuan, aged 44, Executive Director, Chief Executive Officer, Compliance Officer and one of the authorized representatives of the Company

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

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

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

Chen Hongzhan, aged 45, Executive Director, Senior Vice President and Chief Technology Officer

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

DIRECTORS AND SENIOR MANAGEMENT

Zheng Hui, aged 49, Executive Director, Chairman of NetDragon (Fujian) and Senior Vice President

Mr. Zheng is an Executive Director of the Company and is responsible for the overall management and administration of the Group. Mr. Zheng manages our administrative department and provides supporting resources to our operation. Mr. Zheng also coordinates, supervises and manages the duties of our various departments. Mr. Zheng has more than 20 years of management and administration experience. He is one of the founding shareholders and has been appointed as the senior executive manager of NetDragon (Fujian) since 1999. Mr. Zheng is the legal representative and director of Fujian TQ Digital Inc. (福建天晴數碼有限公司), Fujian Province Huayu Education Technology Limited* (福建省華漁教育科技有限公司) and Fujian Tianquan Education Technology Limited* (福建天泉教育科技有限公司). At the same time, he is the Deputy to the Fujian Provincial People's Congress* (福建省人大代表) and the Chairman of Fujian Cultural Enterprises Association* (福建省文化企業協會會長), Vice Chairman of the Provincial Confidential Association*(省保密協會副會長), Vice Chairman of the Provincial Technology Market Association* (省技術市場協會副會長), the Committee of the Provincial Youth Federation *(省青年聯合會委員), the Secretary-General of Trade Development Association of Fuzhou City* (福州市服務貿易發展促進協會秘書長), Honorary Chairman of the Gulou District Youth Federation* (鼓樓區青年聯合會名譽主席) and has taken on other positions.

Before founding NetDragon (Fujian) in 1999, Mr. Zheng worked in Beso and Fuzhou 851 from 1992 to 1999. He obtained a graduation certificate from the Continuing Education Institute of Beijing Normal University in 2000. Zheng Hui is the cousin of Liu Dejian and Liu Luyuan.

NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 55, Non-executive Director

Mr. Lin was appointed as a non-executive Director on 15 October 2007. Mr. Lin graduated with a Master's degree in Engineering Management in 1986 from Tsinghua University. He is currently the general partner of IDG Capital. Before he took up the post, he was the vice president of IDG Technology Venture Investment Inc. and has served as a general partner of IDG Technology Venture Investment since 1999. He has over 20 years of experience in venture investment. He was nominated by the IDG Group to the Board and was appointed as a non-executive Director since 15 December 2004.

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 52, Independent non-executive Director

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

Lee Kwan Hung, aged 52, Independent non-executive Director

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

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

Mr. Lee is currently an independent non-executive director of Embry Holdings Limited, Asia Cassava Resources Holdings Limited, Newton Resources Ltd, Tenfu (Cayman) Holdings Co. Ltd, Landsea Green Group Co., Ltd. (formerly known as "Landsea Green Properties Co., Ltd."), China BlueChemical Limited, Red Star Macalline Group Corporation Ltd., FSE Engineering Holdings Limited, Ten Pao Group Holdings Limited and China Goldjoy Group Limited, the shares of which are listed on the Stock Exchange. Mr. Lee was also an independent non-executive director of (1) Vestate Group Holdings Limited (formerly known as "Walker Group Holdings Ltd.") between February 2011 and March 2016 and (2) Futong Technology Development Holdings Limited between November 2009 and November 2017. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

DIRECTORS AND SENIOR MANAGEMENT

Liu Sai Keung, Thomas, aged 45, Independent non-executive Director

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

SENIOR MANAGEMENT

Yam Kwok Hei, Benjamin, aged 42, Chief Financial Officer and Senior Vice President

Mr. Yam joined NetDragon as our Chief Financial Officer in October 2013 and is responsible for financial management, investor relations and strategic business development. Mr. Yam has over 15 years of professional experience in financial services spanning private equity, corporate finance and auditing. Prior to joining NetDragon, he was a Partner at Entropy Ventures, a cleantech venture capital firm, and before that, he worked for over 7 years at SAIF Partners, a pre-eminent Asian private equity firm managing over USD4 billion, where he last served as Senior Vice President and was actively involved in leading the closing and exit of numerous investment transactions in Greater China, as well as serving as an active board member of several portfolio companies. Mr. Yam started his professional career as an auditor at Arthur Andersen.

Mr. Yam holds a Master of Science degree from Columbia University and a Bachelor of Commerce degree from University of British Columbia. He is a Chartered Accountant, an associate member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charterholder.

Yu Biao, aged 48, Chairman of Fujian Huayu (福建華漁) in PRC and Senior Vice President

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

DIRECTORS AND SENIOR MANAGEMENT

Lin, Chiachuan, Peter, aged 47, Chief Designer and Vice President

After joining NetDragon in April 2013, Mr. Lin has participated in its businesses, such as the development and design of interface and hardware of the Company's products and design of gaming experience. He is currently responsible for the management of User Experience Design Center (UEDC) and Industrial Design Centre (IDC) and certain overseas design teams. Mr. Lin served as the senior manager of the design centre of BenQ Corporation (BenQ) from 2004 to 2006, and the chief designer of BenQ from 2006 to 2010, responsible for the design of brand-name products. He joined Samsung Design China under Samsung Electronics as the creative director/deputy chief in 2012. Mr. Lin graduated from Rochester Institute of Technology in New York, the U.S. and obtained a master's degree of fine arts (MFA). He has over 20 years of experience in design and development and management of brand-name products.

Lin Xin, aged 41, Chief Executive Officer of 天晴互娛 and Senior Vice President

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

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

Wang Song, aged 36, Chief Product Officer and Senior Vice President

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

Lin Wei, aged 39, President of Fujian Huayu in PRC, Senior Vice President

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

Mr. Lin is currently the deputy director of the State Education Huayu VR World Laboratory Project Office of the School Planning and Construction Center of the Ministry of Education and the instructor of Yanwu Maker at the Software College of Xiamen University. He focuses on the research of internet, big data, artificial intelligence and virtual reality education. Mr. Lin is concurrently the deputy secretary-general of the Virtual Reality Education Alliance of the China Educational Technology Association. He is responsible for the development of the Alliance's development strategy and promotes the use of virtual reality technology in education and the cultivation of virtual reality talents.

DIRECTORS AND SENIOR MANAGEMENT

Xiong Li, aged 42, Rotating Chief Executive Officer and Senior Vice President

Dr. Xiong Li joined NetDragon as a rotating chief executive officer of NetDragon Websoft Inc. in July 2014 for the company's general operation and management. His responsibilities include human resources, public relations, art development and training. In November 2017, Dr. Xiong was appointed as deputy director of National Engineering Laboratory for Internet Education Intelligent Technology and Application.

Dr. Xiong has over 12 years of management experience in both information technology and internet industries. Before joining NetDragon, Dr. Xiong served as director of human resources at Shanda Group, and then as executive director of human resources and director of the office of the president. During this time, he oversaw and operated Shanda's unique game-oriented management system and has applied for an intellectual property patent. Previously, Dr. Xiong was also a project manager of human resources at China Mobile where he led the building of competence model and won the 2nd prize of national management innovation issued by China's Ministry of Industry and Information Technology.

Dr. Xiong received a bachelor's degree in automation from University of Science and Technology of China in 1999 and a doctorate degree in management science and engineering in 2004 when graduated early. Dr. Xiong has published over 20 academic papers in domestic and foreign core journals.

Vin Riera, aged 47, Chief Executive Officer of Promethean

Vin Riera was appointed as Promethean's chief executive officer when he joined Promethean in February 2017. Vin is responsible for Promethean's "mission to develop the transformative technologies, educational content and dynamic experiences that motivate students to learn". He is committed to furthering the legacy of success and continuing to place Promethean customers at the centre of everything it does. Prior to working for Promethean, Vin served as the director and chief executive officer of Collegis Education. Vin has also held and served in other progressive executive leadership roles, such as Edmentum, Gateway Inc and Orange Business Services. Vin holds a Bachelor of Business Administration from Western New England University and has over 20 years of successful experience within the technology management and educational technology fields.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Hak Kin, Wood, aged 40, Financial Controller, Qualified Accountant, Head of Compliance and Corporate Affairs and Company Secretary

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

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

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

Details of the principal activities of the Company's principal subsidiaries are set out in note 53 of Notes to the Consolidated Financial Statements.

BUSINESS REVIEW

The fair review of the Group's business for the year ended 31 December 2017 is set out in "Management Discussion and Analysis" section on pages 13 to 16.

Details of analysis of the financial key performance are set out in "Management Discussion and Analysis" section on pages 10 to 12.

PRINCIPAL RISKS & UNCERTAINTIES

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

REPORT OF THE DIRECTORS

BUSINESS REVIEW (Cont'd)

PRINCIPAL RISKS & UNCERTAINTIES (Cont'd)

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

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

Details of the risks relating to the contractual arrangements are set out on pages 52 to 55.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

REPORT OF THE DIRECTORS

BUSINESS REVIEW (Cont'd)

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

On the corporate level, the Group complies with the requirements under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Companies Ordinance"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") for, among other things, the disclosure of information and corporate governance, and the Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Workplace Quality

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

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

REPORT OF THE DIRECTORS

BUSINESS REVIEW (Cont'd)

COMPLIANCE WITH LAWS AND REGULATIONS (Cont'd)

Health and Safety

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

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

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2017 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 99.

The interim dividend of HKD0.10 per share amounting to approximately RMB43,137,000 for the six months ended 30 June 2017 was paid on 24 October 2017.

The Directors now recommend the payment of a final dividend of HKD0.10 per share. The final dividend is expected to be payable on or before Wednesday, 20 June 2018 to shareholders whose names appear on the register of members of the Company on Wednesday, 30 May 2018, amounting to approximately RMB44,661,000.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2017.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2017 are set out in note 13 of Notes to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements of the Company's issued shares for the year ended 31 December 2017 are set out in note 41 of Notes to the Consolidated Financial Statements.

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2017 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017 and 2016, the Company had reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB44,661,000 (2016: approximately RMB44,374,000) and retained earnings of approximately RMB276,876,000 (2016: approximately RMB154,839,000) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue from sales of goods or rendering of services attributable to the Group's five largest customers and the Group's largest customer accounted for approximately 26.2% and approximately 10.0%, respectively, of the Group's total revenue for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for approximately 60.5% and approximately 29.8%, respectively, of the Group's total purchase for the year.

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

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

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

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

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

Notes:

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

The Directors' profile is set out on pages 23 to 28.

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

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

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

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

In accordance with article 87(1) of the articles of association of the Company, Mr. Liu Luyuan, Mr. Zheng Hui and Mr. Lee Kwan Hung will retire by rotation at the forthcoming annual general meeting (the "AGM").

In accordance with article 86(3) of the articles of association of the Company, any Director appointed from time to time by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Mr. Liu Luyuan, Mr. Zheng Hui and Mr. Lee Kwan Hung, being eligible, will offer themselves for re-election at the AGM of the Company. None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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

REPORT OF THE DIRECTORS

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

As at 31 December 2017, 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 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 Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Name of company**	**Capacity and nature of interests**	**Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
Liu Dejian *(Note 2)*	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	255,822,457(L)	47.88%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB299,880,000(L)	99.96%
Leung Lim Kin *(Note 4)*	The Company	Beneficial owner	200,000(L)	0.04%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and beneficiary of certain trust	255,822,457(L)	47.88%
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	255,822,457(L)	47.88%
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)	2.10%
Chao Guowei, Charles *(Note 6)*	The Company	Beneficial owner	918,000(L)	0.17%
Lee Kwan Hung *(Note 7)*	The Company	Beneficial owner	1,112,519(L)	0.21%
Liu Sai Keung, Thomas *(Note 8)*	The Company	Beneficial owner	975,019(L)	0.18%

REPORT OF THE DIRECTORS

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

Notes:

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

2. Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 35.76% of the issued voting shares of the Company. Liu Dejian is also interested in 0.39% 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 5.28% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust of 26,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

   Zheng Hui is interested in 100.00% of the issued voting shares of Fitter Property Inc., which in turn is interested in 3.56% 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 2.61% of the issued voting shares of the Company. Zheng Hui is also interested in 0.28% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 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 47.88% 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, Fitter Property Inc. and Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 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 0.04% of the issued voting shares of the Company which is represented by beneficial interest of 200,000 Shares.

5. Chen Hongzhan is interested in 2.10% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares, interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.

6. Chao Guowei, Charles is interested in 0.17% 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 338,500 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 personal interest of 694,519 shares and the rest being underlying shares of interest of 418,000 share options granted by the Company.

8. Liu Sai Keung, Thomas is interested in 0.18% of the issued voting shares of the Company which is represented by personal interest of 257,019 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.

REPORT OF THE DIRECTORS

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

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2017, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 49 of the Notes to the Consolidated Financial Statements, no transaction, arrangement or contract of significance in relation to the Company's business, to which the Company was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

REPORT OF THE DIRECTORS

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

So far as is known to the Directors, as at 31 December 2017, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100(L)	35.76%
IDG Group *(Note 2)*	The Company	Beneficial owner	78,333,320(L)	14.66%
Ho Chi Sing *(Note 2)*	The Company	Through controlled corporations	78,333,320(L)	14.66%
Zhou Quan *(Note 2)*	The Company	Through controlled corporations	73,490,095(L)	13.75%
First Elite Group Limited *(Note 3)*	The Company	Beneficial owner and through controlled corporation	26,541,819(L)	4.97%
Jardine PTC Limited *(Note 3)*	The Company	Trustee	26,541,819(L)	4.97%

REPORT OF THE DIRECTORS

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

Notes:

1. The letter "L" denotes the shareholder's long position in the 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 2.03%, 9.73%, 1.99% and 0.91% 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 interested in 197,019 shares directly held by it and 26,344,800 shares held by Richmedia Holdings Limited, a company wholly-owned by First Elite Group Limited. First Elite Group Limited is in turn controlled by Jardine PTC Limited, which held relevant interest in trust for Liu Luyuan.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2017.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

ND STRUCTURE CONTRACTS

ND Cooperation Framework Agreement

With a view to offer further protection to the interests of the Company and the shareholders as a whole by means of contractual arrangements, Fujian TQ Digital Inc. (福建天晴數碼有限公司) ("TQ Digital") and Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") and its equity holders entered into the structure contracts (together with the contracts entered into between NetDragon (Fujian) and Fujian TQ Online Interactive Inc. ("TQ Online") as set out below, the "ND Structure Contracts"), which superseded the cooperation arrangements between TQ Digital and NetDragon (Fujian) effective from 1 January 2007. The registered owners of NetDragon (Fujian) are: (i) Liu Dejian, an executive Director (as to approximately 3.23%), (ii) Liu Luyuan, an executive Director (as to approximately 0.07%), (iii) Zheng Hui, an executive Director (as to approximately 96.66%), (iv) Chen Minlin, an employee of Fuzhou 851 (as to approximately 0.02%), and (v) Lin Yun, an employee of the Group (as to approximately 0.02%).

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

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

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

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

* automatically renewable for successive 10 year terms provided that TQ Digital does not issue any notice of termination one month before the termination date

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

ND Equity Interest Pledge Agreement

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

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

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

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

ND Equity Holders' Voting Rights Proxy Agreement

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

ND Other Contracts

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS

WAIVER FROM THE STOCK EXCHANGE AND ANNUAL REVIEW

As Liu Dejian, Liu Luyuan and Zheng Hui, being the executive Directors and the controlling shareholders of the Company, are interested in an aggregate of 99.96% in NetDragon (Fujian), NetDragon (Fujian) is technically an associate of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore a connected person of the Company. Transactions between the Company, NetDragon Websoft Inc. ("NetDragon (BVI)"), TQ Digital, TQ Online or NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts, would technically constitute connected transactions under the Listing Rules. The Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirement of Chapter 14A of the Listing Rules in respect of the ND Structure Contracts and the ND Other Contracts. Details of the waiver, together with its conditions, are set forth in the listing document of the Company dated 27 May 2008 (the "Listing Document").

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

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

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

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

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

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

The amount of revenue and assets subject to the contractual arrangements under the ND Structure Contracts and the Best Assistant Control Documents accounted for approximately 47.6% and 14.9% of the Group's total revenue and assets, respectively, for the year ended 31 December 2017.

The Company's independent non-executive Directors have reviewed the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents and confirmed that the relevant transactions carried out thereunder during the year ended 31 December 2017 have been entered into in accordance with the relevant provisions of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents, have been operated so as to allow (a) the economic interest generated by NetDragon (Fujian) flows to TQ Digital and TQ Online; and (b) the economic interest generated by Fujian Huayu flows to Fujian Tianquan; and the new structure contracts (including the Best Assistant Control Documents) entered into, renewed and/or cloned during the year ended 31 December 2017 were entered into on terms that are fair and reasonable so far as the Company is concerned and in the interests of the shareholders of the Company as a whole.

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

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

Save for the entering into of the Best Assistant Control Documents, details of which are disclosed below, there were no other new arrangements pursuant to or under the contractual arrangements entered into, renewed or reproduced between the Group and the PRC operational entity during the year ended 31 December 2017, and there was no material change in the contractual arrangements and/or the circumstances during the year ended 31 December 2017.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Cooperation Framework Agreement

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

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

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Cooperation Framework Agreement (Cont'd)

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

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

Best Assistant Equity Interest Pledge Agreement

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

Best Assistant Exclusive Acquisition Rights Agreement

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Proxy Agreement

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

REASONS FOR ENTERING INTO THE CONTRACTUAL ARRANGEMENTS

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

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

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

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

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

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

CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

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

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

   On 20 January 2015, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2015 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2012 Renewal Tenancy Agreements for a period from 22 January 2015 to 21 January 2018. On 19 January 2018, NetDragon (Fujian) entered into the renewal tenancy agreement (the "2018 Renewal Tenancy Agreement") with Fuzhou 851 to renew the 2015 Renewal Tenancy Agreement. As Fuzhou 851 is owned as to approximately 12.63% and 87.37% by DJM Holding Ltd., a substantial shareholder of the Company and Liu Dejian, an executive Director, respectively and therefore, Fuzhou 851 is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the 2018 Renewal Tenancy Agreement constitute continuing connected transactions of the Company. The aggregate annual cap for the 2018 Renewal Tenancy Agreement based on the total annual rental payable under the 2018 Renewal Tenancy Agreement for each of the financial years ending 31 December 2016, 2017 and 2018 is RMB7,724,103 (equivalent to approximately HKD9,412,000).

   Further details of the 2018 Renewal Tenancy Agreement are set forth in the announcement of the Company dated 19 January 2018.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

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

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

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

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

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

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

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

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

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

The aggregate annual caps of the 2015 Renewal Service Agreement for each of the three years ending 31 December 2018 are as follows:

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

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

CONFIRMATION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have reviewed the above Transactions conducted during the year ended 31 December 2017 and confirmed that these Transactions:

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

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

(iii) have been entered into in accordance with the 2012 Renewal Tenancy Agreements, the 2015 Renewal Tenancy Agreement, the 2018 Renewal Tenancy Agreement, the 2012 Renewal Recreation Centre Agreement, the 2015 Renewal Recreation Centre Agreement, the 2012 Service Agreement and the 2015 Renewal Service Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded their respective annual caps for the year ended 31 December 2017 as disclosed in the relevant announcements of the Company.

COMPLIANCE WITH DISCLOSURE REQUIREMENTS

The transactions under the 2018 Renewal Tenancy Agreement, the 2015 Renewal Recreation Centre Agreement and the 2015 Renewal Service Agreement are also disclosed in note 49 of the Notes to the Consolidated Financial Statements as related party transactions of the Group. For further details of the nature and extent of each of the connected person's interest in each of the Transactions, please refer to the section headed "Corporate Governance Report – Directors' Interest In Transaction, Arrangement or Contract" below. The Company has complied with the applicable requirements of Chapter 14A of the Listing Rules in respect of the continuing connected transactions.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

AUDITOR'S LETTER ON DISCLOSED CONTINUING CONNECTED TRANSACTIONS

In addition, the Company has engaged its auditor to report on the ND Structure Contracts, the ND Other Contracts, the Best Assistant Control Documents and the Transactions under the 2018 Renewal Tenancy Agreement, the 2015 Renewal Recreation Centre Agreement and the 2015 Renewal Service Agreement of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified opinion containing the conclusion in respect of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents which are in compliance with the Rule 14A.56 of the Listing Rules.

The auditor has also issued unqualified opinion containing the conclusions in respect of the Transactions under the 2018 Renewal Tenancy Agreement, the 2015 Renewal Recreation Centre Agreement and the 2015 Renewal Service Agreement set out above which are in compliance with the Rule 14A.56 of the Listing Rules.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

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

The audit committee is primarily responsible for the review and supervision of the Group's financial reporting process, risk management and internal control system. It has met with the external auditors of the Group to review the accounting principles and practices adopted by the Company and the audited annual financial statements of the Group for the year ended 31 December 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Listing Rules and the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2017.

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

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

Mr. Lee Kwan Hung resigned as an independent non-executive director of Futong Technology Development Holdings Limited on 18 November 2017.

CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the year ended 31 December 2017 as contained in Appendix 14 of the Listing Rules.

A report on the principal corporate governance practices adopted by the Company is set out on pages 70 to 82.

COMPETITION AND CONFLICT OF INTERESTS

None of the Director nor any of their respective associates, as defined in the Listing Rules, has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at 31 December 2017 and as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2017, the Company bought back a total of 3,184,500 shares on the Stock Exchange at an aggregate consideration of HKD65,418,320 before expenses. The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Details of the share buy-backs are as follows:

Month of purchase	Number of ordinary shares bought back	Price per share Highest	Lowest	Aggregate consideration paid
		HKD	HKD	HKD
January 2017	729,000	22.80	21.35	16,168,975
December 2017	2,455,500	21.50	19.88	49,249,345

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2017.

PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

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 "Share Option Scheme") to replace its previous share option scheme.

The Share Option Scheme was adopted for the purpose of providing incentives or rewards to participants (being employees (whether full-time or part time), executives or officers of the Group (including executive and non-executive directors of Members of the Group) and business consultants, agents and legal and financial advisers of the Group who the Board considers, in its sole discretion, will contribute or have contributed to the Members of the Group) ("Participants") as incentives and/or rewards for the Eligible Participants' contribution to the Group, and any of its associated companies, the Group's holding company and the subsidiaries and the associated companies to the Group's holding company (the "Members of the Group").

The Share Option Scheme became effective on 24 June 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 54,023,286 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Share Option Scheme and 10.11% of the shares of the Company in issue as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HKD5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer upon payment of a nominal consideration of HKD1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised.

The exercise price of the share options shall be not less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options, which must be a date on which the Stock Exchange is open for business of dealing in securities; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

SHARE OPTION SCHEME (Cont'd)

Details of the share options outstanding and movement during the year ended 31 December 2017 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at 1 January 2017	Number of share options Granted	Exercised	Lapsed	As at 31 December 2017
Executive Directors							
Liu Luyuan	07.12.2009	4.33	1,400,000	–	1,400,000	–	0
	22.07.2011	4.60	284,000	–	284,000	–	0
Independent non-executive Directors							
Chao Guowei, Charles	04.12.2013	15.72	238,500	–	–	–	238,500
	31.03.2017	23.65	–	100,000	–	–	100,000
Lee Kwan Hung	04.12.2013	15.72	318,000	–	–	–	318,000
	31,03.2017	23.65	–	100,000	–	–	100,000
Liu Sai Keung, Thomas	23.04.2012	5.74	300,000	–	–	–	300,000
	04.12.2013	15.72	318,000	–	–	–	318,000
	31.03.2017	23.65	–	100,000	–	–	100,000
Others							
Employees	28.04.2011	4.80	497,452	–	138,085	–	359,367
	22.07.2011	4.60	58,950	–	50,950	–	8,000
	23.04.2012	5.74	474,294	–	298,577	–	175,717
	06.07.2012	6.53	246,326	–	182,126	64,200	0
	12.09.2012	7.20	50,250	–	–	–	50,250
	16.01.2013	11.164	370,250	–	79,775	13,200	277,275
	25.04.2014	14.66	278,000	–	–	–	278,000
	11.05.2015	27.75	214,000	–	20,000	–	194,000
Total			5,048,022	300,000	2,453,513	77,400	2,817,109

Note:

1. On 31 March 2017, 300,000 share options were granted to the Directors of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 31 March 2017 (the trading day on the grant of the share options) was HKD23.65.

2. During the year under review, 1,684,000 share options was exercised by Director of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Share Option Scheme disclosed above and set out in note 42 of Notes to the Consolidated Financial Statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

SHARE AWARD SCHEME

The Company

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

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

100,000 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company on 31 March 2017. 69,950 awarded shares granted to a number of selected participants were outstanding as at 31 December 2017. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents duly signed by the Trustee and the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation letter from the Company that all vesting conditions having been fulfilled.

Among the 256,546 vested awarded shares as at 31 December 2017, a total of 218,212 awarded shares were vested by the Directors.

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

SHARE AWARD SCHEME (Cont'd)

The Company (Cont'd)

As at 31 December 2017, details of the awarded shares under the Share Award Scheme were as follows:

Average price per share (HKD) *(Note)*	**As at 1 January 2017**	**Number of shares vested during the year**	**Number of granted shares outstanding during the year**	**As at 31 December 2017**
5.07	317,403	(317,403)	0	0

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

Best Assistant Education Online Limited ("Best Assistant")

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

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

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

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

As at 31 December 2017, 80,000 awarded shares were granted under the Best Assistant Share Award Scheme.

REPORT OF THE DIRECTORS

ACQUISITION OF JUMPSTART GAMES INC.

On 8 June 2017 and 1 July 2017, Digital Train Limited, an indirect subsidiary of the Company entered into a sale and purchase agreement and a supplemental agreement with an independent third party for the acquisition of the entire issued and outstanding shares of capital stock of Jumpstart Games Inc. ("Jumpstart"), a company which engages in the educational mobile and multiplayer online games. The company offers learning-based games for kids; Jumpstart.com, a website that offers online gaming for the 3-10 year old demographic, as well as a safe and secure online environment where kids can interact, explore, and learn; MathBlaster.com, an online hub for outer space-based multiplayer online gaming; and educational mobile applications. Its products are used in homes and classrooms worldwide, as well as by teachers, parents, and respected organizations.

The total consideration for the acquisition of Jumpstart consist of initial consideration of USD7,574,478 and a contingent consideration of up to USD20,000,000 which shall mainly be determined based on the financial performance of Jumpstart for the 30-month period ending 30 June 2019. This transaction was completed on 1 July 2017 and the initial consideration was partially settled in cash in the amount of USD500,000 and a promissory note in the sum of USD7,074,478 which will be payable by Digital Train Limited.

TOP-UP PLACING AND SUBSCRIPTION

On 22 September 2017, in order to raise additional funds for general corporate purposes and to fund the growth of its online education business, including capitalizing on revenue opportunities globally, as well as in user scaling and monetization, the Company entered into a placing and subscription agreement (the "Placing and Subscription Agreement") with DJM Holding Ltd ("DJM Holding") and Mr. Liu Dejian, both of whom are controlling shareholders of the Company, and the placing agent, being Goldman Sachs (Asia) L.L.C. (the "Placing Agent"), pursuant to which the Placing Agent have agreed to procure not less than six placees, who (and in the case of any corporate entities, their ultimate beneficial owners) are third parties independent of, and not connected with, the Company and its connected persons, to purchase 38,500,000 ordinary shares held by DJM Holding at the top-up placing price of HKD25.40 per share (the "Top-up Placing Price").

Pursuant to the terms of the Placing and Subscription Agreement, DJM Holding has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the subscription of 38,500,000 new ordinary shares of USD0.01 each (the "Top-up Subscription Shares") at the subscription price of HKD25.40 per share. The aggregate nominal value of the Top-up Subscription Shares amounted to USD385,000. The Top-up Placing Price represents (i) a discount of approximately 7.13% to the closing price of HKD27.35 per share as quoted on the Stock Exchange on the date of the Placing and Subscription Agreement; and (ii) a discount of approximately 10.94% to the average of the closing prices of HKD28.52 per share as quoted on the Stock Exchange for the last five trading days up to and including 21 September 2017, being the last trading day in respect of the Shares immediately prior to the date of the Placing and Subscription Agreement.

On 30 September 2017, the placing and the subscription were completed and the total number of Top-up Subscription Shares allotted and issued to DJM Holding under the Placing and Subscription Agreement was 38,500,000. The net price of each Top-up Subscription Share was approximately HKD25.146. The net proceeds raised by the Company from placing and the subscription was approximately HKD968.12 million. The net proceeds were used as intended and were mainly utilized for the online education business of the Group and the remaining balance as general working capital of the Group.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu ("Deloitte"), the auditor of the Company. A resolution will be submitted in the AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board

Leung Lim Kin, Simon
Vice Chairman

Hong Kong, 22 March 2018

CORPORATE GOVERNANCE REPORT

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

The Company has applied the principles set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules.

Throughout the year, save as disclosed in this Corporate Governance Report, the Company has complied with the provisions set out in the CG Code in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

THE BOARD

The Board is composed of five executive Directors (including the Chairman and the Chief Executive Officer of the Company) and four non-executive Directors (of whom three are independent non-executive Directors), whose biographical details are set out in "Directors and Senior Management" section on pages 23 to 30. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relevant relationship to one another.

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

Duties of the Board including delegation to management

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

CORPORATE GOVERNANCE REPORT

Duties of the Board include:

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

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

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

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

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

During the year ended 31 December 2017, the Board held four meetings and the attendance of each of the Directors at Board, committee and general meetings held in 2017 is set out below:

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

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

CORPORATE GOVERNANCE REPORT

The CG Code provision E.1.2 requires that the Chairman of the Board should attend the annual general meeting of the Company ("AGM") and should invite the Chairman of the audit, remuneration, nomination and any other committee (as appropriate) to attend the AGM and in their absence, he should invite another member of the committee or failing this his duly appointed delegate(s) to attend. These persons should be available to answer questions at the AGM. Mr. Liu Dejian, the Chairman of the Board, could not attend the AGM of the Company held on 18 May 2017 as he had another engagement which was important to the Company's business. Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas both are members of the audit committee, attended the AGM held on 18 May 2017. Due to other commitment, the chairman of the audit committee, Mr. Chao Guowei, Charles did not attend the AGM of the Company held on 18 May 2017.

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

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

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

In addition, the Company has received from each of the independent non-executive Directors an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. These Directors have served on the Board for more than nine years and their independence have been verified. The Nomination Committee is fully satisfied that they demonstrate complete independence in character and judgement both in their designated roles and as board members. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT

With reference to the ND Structure Contracts entered into among TQ Digital, TQ Online and NetDragon (Fujian), the executive Directors, Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, are interested in an aggregate of 99.96% in NetDragon (Fujian). Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts would technically constitute connected transactions. Details for the ND Structure Contracts and the ND Other Contracts are set out in pages 43 to 47 in the section of "Report of the Directors" under the paragraphs of "ND Structure Contracts".

With reference to the Best Assistant Control Documents entered into among Fujian Tianquan, an indirect wholly owned subsidiary of Best Assistant (Cayman), Fujian Huayu and NetDragon (Fujian), NetDragon (Fujian) and Fujian Huayu (being a subsidiary of NetDragon (Fujian)) are technically associates of Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company or its subsidiaries, except Best Assistant (Cayman) and subsidiaries of Best Assistant (Cayman) (the "Best Assistant Group Companies") on one hand and Best Assistant (Cayman) or Best Assistant Group Companies on the other hand, including the Best Assistant Control Documents would technically constitute connected transactions. Details for the Best Assistant Control Documents are set out in pages 48 to 52 in the section of "Report of the Directors" under the paragraphs of "Best Assistant Control Documents".

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

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

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

CORPORATE GOVERNANCE REPORT

Details for the continuing connected transactions are set out in pages 56 to 61 in the section of "Report of the Directors" under the paragraphs of "Continuing Connected Transactions".

Save as the above, none of the Directors is materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance of the Company during the year ended 31 December 2017 or as at the end of the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

AUDIT COMMITTEE

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

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

The Audit Committee held four meetings during the year ended 31 December 2017. The major work performed by the Audit Committee in respect of the year ended 31 December 2017 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the first quarterly results announcement for the three months ended 31 March 2017, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2017, reviewing the third quarterly results announcement for the nine months ended 30 September 2017, reviewing the audited financial statements and final results announcement for the year ended 31 December 2017, reviewing the work of the Group's internal audit and assessing the effectiveness of the Group's systems of internal control, risk management, corporate governance and cost control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, and training programs and budget.

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

The written terms of reference are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2017 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

The Board, based on the review of the Audit Committee, is satisfied that the Group has maintained sound and effective risk management and internal control systems for the year ended 31 December 2017.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

During the year ended 31 December 2017, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company as well as the remuneration of senior management staff. The Remuneration Committee also reviewed the remuneration of the Directors by assessing their performance and with reference to the remuneration level of directors of comparable listed companies and also approved the terms of the executive Directors' service contracts.

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

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

EMPLOYEE AND EMOLUMENT POLICY

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

The emoluments of the executive Directors and senior management of the Company are reviewed and determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has adopted the Share Option Scheme, the NetDragon Share Award Scheme and the Best Assistant Share Award Scheme to motivate Directors and eligible employees. Details of the schemes are set out in the paragraphs headed "Share Option Scheme" and "Share Award Scheme". None of the directors waived any emoluments during the year ended 31 December 2017.

NOMINATION COMMITTEE

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

During the financial year ended 31 December 2017, a meeting was held to review the structure, size and composition of the Board and assessed the independence of the three independent non-executive Directors of the Company. The Nomination Committee is of the view that the current Board demonstrates a balanced composition with sufficient independence element.

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

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

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

The following is a summary of the board diversity policy:

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

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

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

CORPORATE GOVERNANCE REPORT

ND MANAGEMENT COMMITTEE

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

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

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

BEST ASSISTANT MANAGEMENT COMMITTEE

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

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

SHARE AWARD SCHEME COMMITTEE

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

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

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. The Directors confirmed that they have complied with the Code Provision A.6.5 of the CG Code effective on 1 April 2012 on Directors' training. In 2016, all Directors have participated in continuous professional development by reading materials/in house briefing on regulatory and corporate governance matters to develop and refresh their knowledge.

DIRECTORS' INSURANCE

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

AUDITOR'S REMUNERATION

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

	RMB'000
Audit services	4,981
Non-audit services	1,081
	6,062

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

The statements of the Company's external auditors regarding their responsibilities on the financial statements are set out in the Independent Auditor's Report on pages 94 to 98.

COMPANY SECRETARY

Mr. Lau Hak Kin, Financial Controller and Head of Compliance and Corporate Affairs of the Company, has been appointed by the Company as company secretary since September 2014. He is also the primary contact person of the Company. During the year ended 31 December 2017, Mr. Lau Hak Kin has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

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

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

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

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

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

CORPORATE GOVERNANCE REPORT

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company maintains a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

SHAREHOLDERS RELATIONS

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

There has not been any significant change in the Company's constitutional documents during the year ended 31 December 2017.

The AGM will be held at Plaza Meeting Room, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 24 May 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL PROTECTION

Emissions

The Group currently engages in online gaming and online education business and its nature of business is not related to manufacturing or other business which produces emissions (including greenhouse), waste (hazardous and non-hazardous), or other business which have a significant effect on the environment. Therefore, the Company is of the view that the KPIs relating to the environmental aspects under Part A of Appendix 27 are not applicable due to the immaterial impact on the environment by the Company's business.

The Group has enhanced its management of emissions through technological and recycling solutions that seek to reduce the emission of relevant pollutants and greenhouse gases, waste discharged into water and land, as well as the generation of hazardous and non-hazardous waste.

Protection of Environment

The Group has been minimizing the adverse effect of its business on the environment by enhancing operational efficiency and implementing environmental measures. All the operations of the Group are committed to ensure compliance with the relevant laws of the jurisdiction where it belongs and to review the practices of business on a regular basis, in order to identify methods for enhancing sustainable development and deploy measures for more effective use of resources.

Energy Conservation

The Group runs its daily office operation with the objectives of energy conservation, adequate utilization of resources with waste-recycling, as well as enhancing environment awareness of the staff. The Company has spared no effort to advocate "reducing", "re-use" and "recycling" and reduce energy consumption by encouraging the staffs the use of email for internal and external communications, using e-files at the server, double-sided printing and photocopying, promotion of the use of recycled paper, reduce unnecessary printing and photocopying, and making best effort in recycling all office supplies and equipment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIETY

I. Employment

Nearly 99% of the staff employed by the Group are located in China. The Group offers equal opportunities to all job seekers regardless of race, color, nationality, religion, gender, age, disability or other bias prohibited by any other relevant laws. The policy of the Group is to select the most suitable person who corresponds to particular job requirements taking into account of educational background, working experiences, skills, personal integrity and considerations such as potential to grow in line with the Group. The Group has been in strict compliance with the requirement of the PRC Labor Law without any violation of the relevant standards and regulations:

1. All wages, over-time allowances and relevant benefits are paid based on the local minimum wage (or at a higher rate);
2. All holidays and statutory paid holidays are in compliance with the requirements of the State;
3. The Company treats every staff with equality and none of their appointment, remuneration packages and promotions will be affected on the grounds of their social identity, such as race, ethnicity, nationality, gender, religion, age, sexual orientation, political grouping, marital status;
4. Implementation of a work system based on the comprehensive calculation of working hours with reference to Labor Law.

In order to attract, nurture and retain qualified employees, the Group is committed to offer professional development opportunities and a healthy working environment for all the employees. In addition, the Group also pursues the principle of employment with equality. The Group requires the employees to bear high standard of business ethics and promotes good personal integrity.

The Group conducts reviews of the remunerations and benefits scheme regularly to ensure the remunerations and benefits remain competitive. Moreover, the Group continues to review the scheme annually and adjusts the remunerations and other benefits of the employees, including medical scheme, health check, overseas business trip, training allowance and retirement benefits, according to the prevailing market condition.

The Group strongly advocates community spirit of mutual respect and equal opportunities. The Group strictly complies with the law of Equal Opportunities, including Sex Discrimination Ordinance, Race Discrimination Ordinance, Disability Discrimination Ordinance and Family Status Discrimination Ordinance. To ensure diversification and equality in career opportunities, the principles of recruitment, remuneration and promotion of the Group are based on the working experiences, skills and performance of the employees, who will not be discriminated on the grounds of age, race, disability, gender or family.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

II. Health and Safety

The Group has made its endeavor to provide a healthy working environment for the employees. In order to maintain a healthy working environment, the Group performed upgrades, maintenance and controls in respect of the equipment and facilities, personnel control and information technology equipment.

The Group has made its best effort to provide a safe and healthy working environment for all the employees, exercised strict control on both staff and vehicles entering and exiting the Company with security guard on duty on a 24-hour basis, conducted strict inspection to protect the personal and property safety of the Company's employees. In addition, the Company has installed a monitoring system everywhere in its office area, set up a fire station equipped with full-time firemen and sound fire equipment, such as fire engines, aerial ladders and fire-fighting coats, drawn up operation safety manual along with an assessment on operation safety on a monthly basis and conducted irregular training on fire safety for all the employees, such as fire evacuation drill, explosion drill, lift entrapment drill and drowning drill, for the purpose of round-the-clock protection of the safety for the Company.

In respect of health, the Group conducts body checks for all the employees every year and has set up special medical room within the Company equipped with related facilities such as oxygen concentrators, disinfection machines, dehumidifiers, wheelchairs, stretchers, crutches and various medicines, and employed professional doctors and nurses to provide services such as making diagnosis for common diseases and frequently-occurring diseases, performing preliminary treatment for accidental injuries and liaison for hospitalization, conducting irregular statistics over staff's special physical conditions and purchasing specific medicines in response to staff's feedback in advance in order to provide health protection to the employees and their families. In addition, the medical room will provide tips on medical knowledge, health maintenance and diet matching with free consultation service; in respect of food safety, all the food in the Company are supplied by "METRO" and "Yonghui Superstores", safeguarding the health and safety of the Company's employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

III. Development and Trainings

Staff Training

NetDragon University is a base for nurturing management and technological talents of the Group. As a powerful support and an important part of the overall strategy of the Group, NetDragon University is committed to providing professional and systematic training services to the staff of the Group. In 2017, in view of the tactical and business requirements of the Group, NetDragon University established a new direction for training based on new organizational structure (two centres + two laboratories: VR Training Centre, Skills Development Centre, Mobile Learning Laboratory, Experiential Learning Laboratory), to deepen functions and application internally and promote effects with a focus on business externally.

Achievements throughout 2017

In line with strategic development and key businesses of the Company, continued efforts were given to external VR training with a focus on the core business of the Company in a quick response to the needs of various business departments to create VR artistic design commercial training products jointly with the VR Art Department. Also, in response to the request for enhancing productivity made by the Company at the beginning of the year, transformation to BP's training was carried out through cooperation with each department to enhance productivity and coordination of positions. Moreover, to facilitate transformation of the Company into a design company, certification of design methodology was proceeded continually, and was upgraded to V2.0 version of certification. In management training, nurturing of senior management talents for the Company was pursued through the Qianlong Acceleration Project, and adopted the mode of department projects to follow more closely with the practical situation of the departments to satisfy departmental needs, the learning method of combining online and offline learning was pursued for sound training effect.

Throughout 2017, NetDragon University organized a total of 309 various training events with an attendance of 11,348 participants.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

External Training

VR Training Project: In line with the VR key business of the Company, the NetDragon University VR Training Centre commenced external training in a quick response to the needs of business departments. Projects undertaken for operation included: information leadership ability training for principals of 88 tertiary education institutions, 8 sessions of information leadership ability training for principals of secondary and primary schools, 101 school and enterprise partnership projects on VR teacher training, VR world laboratory and Hong Kong summer and Christmas study tours and VR camps, technical secondary schools' principals' seminar and education management cadre workshop, etc. of which, the training for principals of tertiary education institutions received favourable comments from most principals, at the same time many tertiary education institutions expressed their intent in VR building. Strategic products of the Company were embedded in many sessions of information leadership ability training for principals of secondary and primary schools, including products such as 101 education PPT and alumni, Promethern interactive class, VR intelligent classroom/Maker classroom, VR subject education and intellectual laboratory and training room and VR education resources database, a total of nearly 160 secondary and primary schools in 8 sessions had intent of cooperation and were willing to have in-depth interflow on cooperation opportunities. Throughout the year, VR Training Centre organized a total of 35 training events of various training subjects with an attendance of 1,821 participants, indirect revenue of which (being post-training value) amounted to approximately RMB12.84 million.

Internal Training

Productivity Enhancement Project: In response to the request for enhancing productivity made by the Company at the beginning of the year, the Skills Development Centre was transformed into business partner training and cooperated with other departments, such as the design centre, artistic VR department, engineering institute and Huayu resources production group, in enhancing productivity, and developed the dual creative training camp project for the design centre, programming boot camp, productivity enhancement project for the artistic VR department, 101 creative thinking world certification project and the development and management productivity enhancement project for the engineering institute. Through measures such as process optimization, utilization of new tools and standardization of operation, assistance to enhance the productivity of the business department was provided.

Management Training Project: The Qianlong Acceleration Project commenced in 2016 continued to nurture high potential management talents for the Company, three core trainings on management abilities were completed through online and offline and combining theory and practice. Meanwhile, after taking over the Management Training Project of Yayu, design methodology was introduced innovatively to help middle and senior management staff of Yayu to complete the rationalization and consensus of targets and initiated the basic management training camp project. Based on the competency model and typical tasks of basic management, 7-step Qianlong learning project was developed to assist basic management in ability improvement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Skills Training: During the year, a total of 122 courses were organized on various topics of skills with a total attendance of 4,066 participants.

Experience Training: The trainer nurturing project was started and recruited a total of 31 new trainers. 50 sessions of routine expansion were completed during the year in 55 teams, involving: the VR design department, art development department, programming centre, design centre, K12 self-grouping network, Huayu resources production group, engineering institute common platform, overseas business department, Tiandi, website centre and QA, etc.

New Staff Training: During the year, a total of 24 sessions were organized with a total number of 1,004 participants and new staff's marathon process was optimized and incorporated such staff into an employment-after-probation process with a total of 10 sessions and 890 participants.

Design Theory Primary Certifications: During the year, a total of 947 participants took part in design theory primary certifications.

Engineering Institute's Skills Certification: Engineering institute's skills certification included 7 skill direction certifications, structural design, programme design, database, demand analysis, etc.

Programming Centre Post Duty Certification: It involved 10 skill directions, i.e., C++coding standards, Android coding standards, JAVA coding standards, C++ development certification, SVN source code management certification, STL certification, MySQL certification, UML certification, U3D technical certification, safety technology certification with a total of 1,377 participants.

Construction of Platform Function and Content

Construction of Platform Function: In line with the implementation of post coordination certification and administration of data statistics, implementation of 3 questions per day function were promoted and applied to various business departments, development of learning map function, prototype design of data reports, development and testing of novice task's function were promoted.

Construction of Platform Content: In 2017, a total of 220 courses and 275 training certification courses were uploaded to learning platform and 315 micro video classes were developed in micro class resource pool.

IV. Labour practices

The Group formulated its labour practices pursuant to the Labour Law of China, and such practices are in compliance with the requirement of the national standard. The Group has also given directions to the employees pursuant to the laws of the State. The Group strictly complies with the relevant laws and regulations and in no circumstances engaged in any forced labour or child labour.

V. Management of the Supply Chain

The Company has established a set of comprehensive system for the management of the supply chain, aiming to select quality suppliers on a strict basis while building a stable cooperative relationship with them, and to guarantee their cooperation meets the social, legal, moral and environmental standards. Prior to the introduction of suppliers, the Group will perform due diligence in respect of the corporate qualification, capability of production, operation and management of the suppliers, and products qualification certification, conduct strict inspection of product quality, make sure quality cooperating manufacturers are introduced, enter into comprehensive supply contracts and quality guarantee agreement with the suppliers in the course of cooperation, regulate strictly the mechanism of admission, assessment and replacement of suppliers, compile a list of qualified suppliers and conduct regular assessment of the system to eliminate the sub-standard ones.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2017, Promethean had a total of 17 key suppliers. The geographical split of these suppliers was as follows:

Indicators	**2017**	2016	2015
Number of Key suppliers[1]	**17**	15	11
By region:			
Asian countries other than PRC and Hong Kong	**2**	4	1
Australia	**0**	0	0
UK	**0**	0	1
US	**5**	1	1
PRC	**7**	5	4
Hong Kong	**1**	4	3
European Countries other than UK	**2**	1	1
Total amounts invoiced by key suppliers (£ million)	**183.7**	95.8	90.7

1 Key suppliers refers to suppliers of products/services whose total contract sum amounted to £1 million or more in any given year.

Promethean has a rigorous supplier on-boarding process that is undertaken in respect of significant suppliers of products to the Group. This process includes a review of quality processes, Health & safety, training & development, labour ethics and the environment.

The Promethean's operations team periodically visit significant suppliers in the normal course of business.

During the year, the Group was not aware that any key suppliers had any significant actual and potential negative impact on business ethics, environment protection, human rights and labour practices nor was the Group aware that any of them had any non-compliance incident in respect of human rights issues.

Engaging suppliers: Key ODM suppliers are managed by the Quarterly Business Review (QBR) process.

The number of suppliers where the practices are being implemented. Promethean's 2 suppliers of Interactive Flat Panels account for c.60% of total company spend are managed by the QBR process. Other Key suppliers based on pareto 80% value are managed by 6 or 12 month business reviews.

These are implemented and monitored by way of a QBR presentation pack which is produced for the review meeting and subsequent actions logged and reviewed/closed out at the following meeting.

VI. Product Liability

Based on the standard of a computerized software test, the Group has performed strictly product inspection, including function test, performance test, safety test, stability test, compatibility test and interface test, etc. and applied extensively automated testing technology to avoid and control, to the largest extent, risks of human factors to ensure the product functions and various indexes meet the quality standard. Moreover, for the purpose of a further guarantee for continuous improvement on product quality and on the quality of the production procedures, the Group has established an analysis mechanism for causes to defects and prevention measures for defects through the management of the information of BUG, along with regular technologies exchanges with corporates and universities, as well as continuous improvement and testing for related new tools and new methods.

The Group has taken the following measures to guarantee product quality:

1. Giving out daily journals on quality, demonstrating on a multidimensional scale the quality and progress of the latest version of the products, and coordination for issues addressing on a timely basis to avoid and control risks to the largest extent in order to ensure the progress of the products;

2. On the basis of the 7 x 24 cloud service of the automated testing technology, performing self-development of a tailored testing cloud platform to conduct various specific tests such as functions, compatibility, network and safety for the products for a comprehensive protection of quality;

3. Strict implementation of the procedures and standards related to quality control, including review of product demand, test activities such as management of test plans, management of test rules, management of test performance, management of feedback on risks and management of bug information;

In 2017, Promethean was not aware of any incidents of non-compliance with regulations and voluntary codes concerning the provision and use of the Group's products and services, including but not limited to, product and service information and labelling, marketing communications including advertising, promotion and sponsorship, and property rights including intellectual property rights that have a significant impact on the Group.

Promethean has had no health & safety related product recalls during the three years ended 31 December 2017.

During the three years ended 31 December 2017, Promethean has had no significant product failures. Any normal run rate failures are covered by Promethean's warranty offerings.

Promethean also monitors customer feedback and product related enquiries. Of the customer enquiries received over the course of the three years ending 31 December 2017, less than 1% of such enquiries result in a complaint.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As per the below table in 3 years Promethean had 285,866 inbound calls to the Contact Centre, 145 of these were complaints, as such only 0.05% were complaints.

Year	Contacts into Support	Complaints received	% Complaints
2015	99,957	28	0.03%
2016	91,615	41	0.04%
2017	94,294	76	0.08%
Total	285,866	145	0.05%

The complaints are dealt with on a case by case basis via feedback Customer Satisfaction surveys. These are dealt with by a dedicated team who record the feedback and in return contact the customers in order to best resolve the complaint.

ClassFlow™ and Data Privacy

Since ClassFlow™ is a service which collects personally identifiable information from teachers, parents and students, since its initial release in 2014, Promethean has made significant efforts to comply with data privacy regulations around the world. Promethean has made significant efforts to ensure that it is particularly sensitive to its use of personally identifiable information belonging to students (children under the age of 18). To that end, Promethean has developed a privacy policy which is constantly updated with each new release of the Service and takes into consideration the ever-changing legal regulatory landscape on a global level. To date, there have been no incidents of security or data breaches related to the ClassFlow™ Service.

Quality Assurance

Promethean's global Product Quality objectives are working with our supplier/business partners to continually improve product/ processes to ensure that very high standards, in terms of Quality, Cost and Delivery (QCD) performance, are achieved.

The overall responsibilities include ensuring that Quality Assurance principles are built into the supplier/business partners new product release and product life cycle processes; whilst also ensuring that they maintain ISO 9001 quality management and other relevant standards.

VII. Anti-corruption

The Group has been directing the operation of the Company's departments in accordance with laws and regulations and has put in place a reporting mechanism, allowing the employees an access for ideas or suggestions feedback to the internal review department of the Company on an anonymous basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VIII. Community Investment (Public Service Activities)

1. In April 2017, the Company initiated the "2017 International Summer Holiday Trainee (2017 國際暑期實習生)" project and conducted accurate selection of candidates making an application by their CV through liaising worldwide with the target universities and finally selected 28 trainees worldwide. They studied and lived in the Company. With the design methodology independently researched and developed by the Company as main courses, tutors instructed them to bang out design ideas.

2. On 20 May 2017, the Company organized the 518 Athletic Meet at Haixi (NetDragon) Animation Creativity City (海西(網龍)動漫創意之都), attracting participation of 6,000 people. The Company has been adopting game-based management and encouraging our employees to take physical exercises and uplift the spirit of sports.

3. On 1 June 2017, the Company invited a group of children in Minqing who suffered from typhoon occurred last year to visit Haixi (NetDragon) Animation Creativity City and experience VR, AR and MR technology with an aim to meet their small wishes to "fly in the sky and swim in the sea (上天入海)" and facilitate children in the mountain areas to celebrate a special Children's Day.

4. On 20 June 2017, the "2017 VR Innovation and Venture Contest (2017VR 創新創業大賽)" organized by the Company was formally initiated. The contest is aimed to create an open VR industrial innovation and venture platform characterized by "VR Hardware + Content + Industry Application + Fund + Incubation" based on the "VR+" innovative system in order to, on one hand, focus on domestic and foreign core VR industrial forces to start a new era of the VR content ecosystem, and on the other hand, consolidate investor, industry expert and independent VR developer resources to realize all-win in respect of VR content production, industry application solution, product development and talent training and export.

5. On 28 October 2017, nearly 30 employees of the Company participated in the "Fuzhou City Happy Running Race (福州城市樂跑賽)" to promote the concepts of happiness, health and friendship throughout the city.

6. In November 2017, the "Qi Gong Inscription Collection Exhibition (啟功舊藏金石碑帖展)" was solemnly opened at Guardian Art Center. Such exhibition was the first concentrated external display of Mr. Qi Gong's collections. As one of the cooperating parties of such exhibition, the Company created the "Qi Gong VR Museum (啟功 VR 博物館)" specially for such exhibition leveraging its leading VR technology strength to pay our respects to traditional culture with high technologies.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED

OPINION

We have audited the consolidated financial statements of NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 99 to 222, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Online and mobile game revenue recognition	
We identified the recognition of online and mobile game revenue as a key audit matter due to the involvement of significant management estimates. Online and mobile game revenue of approximately RMB1,672,858,000 for the year ended 31 December 2017 was recognised after the actual usage of the game points in the online and mobile games. Income received in respect of unutilised game points including those arising from unactivated pre-paid game cards is recognised as deferred income. Management is therefore required to make estimation in respect of average sales value and average discount rate of the unutilised game points. The key estimates involved are described in more details in Note 4 to the consolidated financial statements.	Our procedures in relation to online and mobile game revenue recognition included: • evaluating both the manual and automated controls over the revenue recognition process in respect of online and mobile game revenue; and • evaluating the reasonableness of management's estimation by recalculating the average sales value and average discount rate of the unutilised game points with reference to monetary value and number of game points recharged for certain games during the year using computer-assisted audit techniques.
Impairment of goodwill and intangible assets	
We identified the impairment of goodwill and intangible assets arising from historical acquisitions as a key audit matter due to the use of management's estimation of the value in use of the cash-generating units to which goodwill and intangible assets are allocated, in the course of management's impairment assessment. In management's impairment assessment, there are a number of key judgements used to determine the recoverable amount, including the identification of cash-generating units, estimation of growth rates in future cash flow forecasts and discount rates applied to these forecasts. The carrying amounts of goodwill and intangible assets were approximately RMB388,675,000 and RMB715,578,000 respectively as at 31 December 2017. Details of intangible assets and impairment testing of goodwill and intangible assets with indefinite useful lives are disclosed in Notes 16 and 22 to the consolidated financial statements respectively.	Our procedures in relation to the impairment of goodwill and intangible assets included: • obtaining approved cash flow forecasts from management, and challenging the assumptions and methodologies used by management in their impairment assessment against market data and industry benchmarks; • evaluating the accuracy of management's forecasts by comparing previous forecasts with historical results; and • evaluating the sensitivity analysis of the forecasts for reasonably possible change in any of the assumptions made.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lee Ka Kei.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017** **RMB'000**	2016 RMB'000
Revenue	5	**3,867,623**	2,793,103
Cost of revenue		**(1,687,860)**	(1,203,234)
Gross profit		**2,179,763**	1,589,869
Other income and gains	5	**95,965**	163,018
Selling and marketing expenses		**(624,716)**	(519,662)
Administrative expenses		**(734,560)**	(720,967)
Development costs		**(844,076)**	(759,932)
Other expenses and losses		**(100,981)**	(61,134)
Share of losses of associates		**(822)**	(862)
Share of loss of a joint venture		**(567)**	–
Provision for product impairment	9	**–**	(77,774)
Operating loss		**(29,994)**	(387,444)
Interest income on pledged bank deposits		**2,558**	–
Exchange gain (loss) on pledged bank deposit, secured bank borrowings and convertible preferred shares		**3,250**	(21,824)
Net gain on convertible preferred shares	37	**2,809**	193,357
Net gain on disposal of held-for-trading investment		**35**	253
Net gain on held-for-trading investment		**23**	15,546
Finance costs	6	**(10,409)**	(8,650)
Loss before taxation		**(31,728)**	(208,762)
Taxation	8	**(57,209)**	(28,022)
Loss for the year	9	**(88,937)**	(236,784)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
Other comprehensive income (expense) for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**9,174**	(82,667)
Fair value loss on available-for-sale investment		**(17,385)**	(11,302)
Release of reserve upon impairment of available-for-sale investment		**28,687**	–
Other comprehensive income (expense) for the year		**20,476**	(93,969)
Total comprehensive expense for the year		**(68,461)**	(330,753)
Loss for the year attributable to:			
– Owners of the Company		**(20,843)**	(202,742)
– Non-controlling interests		**(68,094)**	(34,042)
		(88,937)	(236,784)
Total comprehensive expense for the year attributable to:			
– Owners of the Company		**(3,168)**	(284,391)
– Non-controlling interests		**(65,293)**	(46,362)
		(68,461)	(330,753)

	NOTE	RMB cents	RMB cents
Loss per share	12		
– Basic		**(4.12)**	(40.93)
– Diluted		**(4.12)**	(40.93)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	13	**1,373,026**	1,284,494
Prepaid lease payments	14	**515,299**	509,018
Investment properties	15	**64,532**	57,964
Intangible assets	16	**715,578**	722,498
Interests in associates	17	**15,961**	16,783
Interest in a joint venture	18	**17,433**	–
Available-for-sale investments	19	**10,859**	17,883
Loan receivables	20	**18,410**	20,477
Trade receivables	24	**3,912**	11,490
Restricted bank deposit	32	**5,000**	–
Deposits made for acquisition of property, plant and equipment		**7,441**	14,585
Goodwill	21	**388,675**	338,237
Deferred tax assets	23	**4,160**	3,445
		3,140,286	2,996,874
Current assets			
Properties under development	25	**160,141**	55,429
Property held for sale	33	**9,213**	–
Inventories	26	**106,430**	125,285
Prepaid lease payments	14	**9,866**	6,003
Loan receivables	20	**4,662**	13,712
Trade receivables	24	**380,072**	351,693
Amounts due from customers for contract work	27	**16,522**	10,640
Other receivables, prepayments and deposits	28	**255,948**	121,564
Amount due from a related company	29	**1,704**	1,704
Amounts due from associates	30	**5,264**	8,561
Amount due from a joint venture	30	**159**	–
Tax recoverable		**1,497**	3,281
Held-for-trading investment	31	**–**	151,783
Restricted bank balances	32	**20,332**	–
Pledged bank deposits	32	**145,084**	411
Bank deposits	32	**–**	55,496
Bank balances and cash	32	**1,578,477**	876,532
		2,695,371	1,782,094

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Current liabilities			
Trade and other payables	34	**680,736**	531,757
Amounts due to customers for contract work	27	**1,691**	988
Provisions	35	**41,246**	45,876
Deferred income		**95,531**	84,567
Amount due to a related company	36	**1,400**	978
Amounts due to associates	36	**305**	4,558
Secured bank borrowings	38	**146,132**	29,000
Promissory note	39	**46,226**	–
Income tax payable		**23,339**	18,364
		1,036,606	716,088
Net current assets		**1,658,765**	1,066,006
Total assets less current liabilities		**4,799,051**	4,062,880
Non-current liabilities			
Other payables	40	**2,693**	5,582
Provisions	35	**–**	1,702
Convertible preferred shares	37	**95,249**	104,101
Secured bank borrowings	38	**86,582**	–
Deferred tax liabilities	23	**130,466**	123,218
		314,990	234,603
Net assets		**4,484,061**	3,828,277
Capital and reserves			
Share capital	41	**39,094**	36,571
Share premium and reserves		**4,510,073**	3,817,258
Equity attributable to owners of the Company		**4,549,167**	3,853,829
Non-controlling interests		**(65,106)**	(25,552)
		4,484,061	3,828,277

The consolidated financial statements on pages 99 to 222 were approved and authorised for issue by the Board of Directors on 22 March 2018 and are signed on its behalf by:

Zheng Hui
Director

Leung Lim Kin, Simon
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company															
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000 (Note a)	Other reserve RMB'000 (Note b)	Capital reserve RMB'000 (Note c)	Statutory reserves RMB'000 (Note d)	Dividend reserve RMB'000	Revaluation reserve RMB'000	Treasury share reserve RMB'000 (Note e)	Employee share-based compensation reserve RMB'000	Translation reserve RMB'000	Available-for-sale investment reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity 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 year	–	–	–	–	–	–	–	–	–	–	–	–	(202,742)	(202,742)	(34,042)	(236,784)
Other comprehensive expense for the year	–	–	–	–	–	–	–	–	–	–	(70,347)	(11,302)	–	(81,649)	(12,320)	(93,969)
Total comprehensive expense for the year	–	–	–	–	–	–	–	–	–	–	(70,347)	(11,302)	(202,742)	(284,391)	(46,362)	(330,753)
Repurchase and cancellation of shares	(446)	(101,220)	446	–	–	–	–	–	–	–	–	–	(446)	(101,666)	–	(101,666)
Shares issued upon exercise of share options	220	23,201	–	–	–	–	–	–	–	(6,901)	–	–	–	16,520	–	16,520
Shares issued upon acquisition of subsidiaries	71	20,805	–	–	–	–	–	–	–	–	–	–	–	20,876	–	20,876
Contributions from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,723	3,723
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	4,020	–	–	–	4,020	–	4,020
Awarded shares vested to employees	–	–	–	–	–	–	–	–	1,133	(3,355)	–	–	2,222	–	–	–
Deemed disposal of subsidiaries to non-controlling shareholders	–	–	–	(2,585)	–	–	–	–	–	–	–	–	–	(2,585)	8,377	5,792
Dividend paid to non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,115)	(1,115)
Acquisition of additional equity interests from non-controlling interests	–	–	–	(8,708)	–	–	–	–	–	–	–	–	–	(8,708)	(104)	(8,812)
Acquisition of a non-wholly owned subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	138	138
Transfer upon deregistration of a subsidiary	–	–	–	(1)	–	–	–	–	–	–	–	–	1	–	–	–
Final dividend for 2015 paid	–	–	–	–	–	–	(49,767)	–	–	–	–	–	8,178	(41,589)	–	(41,589)
Interim dividend for 2016 declared and paid	–	–	–	–	–	–	–	–	–	–	–	–	(42,494)	(42,494)	–	(42,494)
Final dividend for 2016 proposed	–	–	–	–	–	–	44,374	–	–	–	–	–	(44,374)	–	–	–
Transfers	–	–	–	–	–	32,150	–	–	–	–	–	–	(32,150)	–	–	–
	(155)	(57,214)	446	(11,294)	–	32,150	(5,393)	–	1,133	(6,236)	–	–	(109,063)	(155,626)	11,019	(144,607)
At 31 December 2016	36,571	830,126	6,155	28,170	10,035	292,864	44,374	22,449	(2,120)	20,357	(118,365)	(11,302)	2,694,515	3,853,829	(25,552)	3,828,277
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(20,843)	(20,843)	(68,094)	(88,937)
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	6,373	11,302	-	17,675	2,801	20,476
Total comprehensive income (expense) for the year	-	-	-	-	-	-	-	-	-	-	6,373	11,302	(20,843)	(3,168)	(65,293)	(68,461)
Repurchase and cancellation of shares	(201)	(48,946)	201	-	-	-	-	-	-	-	-	-	(201)	(49,147)	-	(49,147)
Shares issued upon exercise of share options	169	15,906	-	-	-	-	-	-	-	(4,983)	-	-	-	11,092	-	11,092
Issued new shares	2,555	818,366	-	-	-	-	-	-	-	-	-	-	-	820,921	-	820,921
Contributions from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,382	26,382
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	5,014	-	-	-	5,014	-	5,014
Awarded shares vested to employees	-	-	-	-	-	-	-	-	1,168	(3,754)	-	-	2,586	-	-	-
Deemed disposal of subsidiaries to non-controlling shareholders	-	-	-	1,975	-	-	-	-	-	-	-	-	-	1,975	(1,975)	-
Acquisition of additional equity interests from non-controlling interests	-	-	-	(3,754)	-	-	-	-	-	-	-	-	-	(3,754)	1,332	(2,422)
Final dividend for 2016 paid	-	-	-	-	-	-	(44,374)	-	-	-	-	-	(84)	(44,458)	-	(44,458)
Interim dividend for 2017 declared and paid	-	-	-	-	-	-	-	-	-	-	-	-	(43,137)	(43,137)	-	(43,137)
Final dividend for 2017 proposed	-	-	-	-	-	-	44,661	-	-	-	-	-	(44,661)	-	-	-
Transfers	-	-	-	-	-	43,542	-	-	-	-	-	-	(43,542)	-	-	-
	2,523	785,326	201	(1,779)	-	43,542	287	-	1,168	(3,723)	-	-	(129,039)	698,506	25,739	724,245
At 31 December 2017	39,094	1,615,452	6,356	26,391	10,035	336,406	44,661	22,449	(952)	16,634	(111,992)	-	2,544,633	4,549,167	(65,106)	4,484,061

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Notes:

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

b. Other reserve represented the deemed disposals of subsidiaries and acquisition of additional equity interest of subsidiaries in which control is still retained.

c. Capital reserve arose on combining the results and financial positions of the companies of 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) ("NetDragon (Fujian)") using the principles of merger accounting.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES			
Loss for the year		**(88,937)**	(236,784)
Adjustments for:			
Taxation		**57,209**	28,022
Finance costs		**10,409**	8,650
Depreciation of property, plant and equipment		**159,498**	148,043
Amortisation of intangible assets		**83,728**	128,279
Amortisation of prepaid lease payments		**13,211**	5,687
Impairment of property, plant and equipment		**–**	3,885
Impairment of intangible asset		**–**	61,092
Impairment of property held for sale		**1,625**	–
Impairment of trade and other receivables		**847**	10,794
Impairment of available-for-sale investment		**28,687**	–
Net loss (gain) on disposal of property, plant and equipment		**1,867**	(7,637)
Net gain on convertible preferred shares	37	**(2,809)**	(193,357)
Net gain on held-for-trading investments		**(23)**	(15,546)
Net gain on disposal of held-for-trading investments		**(35)**	(253)
Gain on disposal of assets classified as held for sale		**–**	(1,601)
Fair value (gain) loss of investment properties		**(10,726)**	1,114
Fair value change of remeasurement of previously held equity interest in an associate upon acquisition		**–**	1,075
Interest income		**(9,624)**	(17,502)
Provision for purchase orders surrendered		**–**	10,065
Share-based payments expense		**5,035**	4,020
Share of losses of associates		**822**	862
Share of loss of a joint venture		**567**	–
Write-off of inventories		**13,306**	6,617
(Write-back) write-off of deposit paid for acquisition of property, plant and equipment		**(1,162)**	1,162
Reversal of allowance for doubtful debts		**(572)**	(3,051)
Operating cash flows before movements in working capital		**262,923**	(56,364)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Decrease (increase) in inventories	**5,549**	(14,318)
Increase in trade receivables	**(14,151)**	(112,490)
Increase in amounts due from customers for contract work	**(5,882)**	(6,301)
Increase in other receivables, prepayments and deposits	**(114,262)**	(16,325)
Decrease in amounts due from associates	**3,297**	2,643
Increase in amount due from a joint venture	**(159)**	—
Increase in trade and other payables	**118,335**	3,192
Increase (decrease) in amounts due to customers for contract work	**703**	(5)
Increase (decrease) in deferred income	**10,964**	(472)
(Decrease) increase in provisions	**(7,818)**	10,735
Increase (decrease) in amount due to a related company	**422**	(1,276)
Decrease in amounts due to associates	**(4,253)**	(5,074)
Proceeds from disposal of held-for-trading investments	**151,841**	34,656
Cash generated from (used in) operations	**407,509**	(161,399)
Interest paid	**(9,975)**	(8,433)
Income tax paid	**(60,621)**	(100,484)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**336,913**	(270,316)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTE	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(342,596)**	(203,687)
Placement of pledged bank deposits		**(145,089)**	(411)
Purchase of intangible assets		**(37,552)**	(25,732)
Purchase of prepaid lease payments		**(23,355)**	(118,623)
Placement of restricted bank balances		**(20,332)**	–
Investment in a joint venture		**(18,000)**	–
Purchase of property held for sale		**(11,238)**	–
Deposits paid for acquisition of property, plant and equipment		**(10,583)**	(12,882)
Purchase of available-for-sale investment		**(10,361)**	(24,185)
Advance of loan receivables		**(6,817)**	(12,557)
Placement of restricted bank deposit		**(5,000)**	–
Acquisitions of additional equity interests from non-controlling interests		**(2,422)**	(8,812)
Acquisitions of subsidiaries	43	**(2,365)**	(9,579)
Withdrawal of bank deposits		**54,858**	1,087,997
Repayment of loan receivables		**17,315**	5,426
Interest received		**8,360**	26,054
Refund of deposit paid for acquisition of property, plant and equipment		**5,000**	–
Proceeds from disposal of property, plant and equipment		**1,751**	19,285
Withdrawal of pledged bank deposit		**393**	–
Placement of bank deposits		**–**	(552,361)
Proceeds from disposal of assets classified as held for sale		**–**	4,192
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(548,033)**	174,125

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**1,679,758**	1,612,656
Proceeds from issue of ordinary shares	**820,921**	–
Contribution from non-controlling shareholders	**22,285**	3,723
Proceeds from shares issued upon exercise of share options	**11,092**	16,520
Repayment of bank and other borrowings	**(1,472,732)**	(1,616,868)
Dividends paid	**(87,595)**	(84,083)
Payment for repurchase of shares	**(49,147)**	(101,666)
Dividend paid to non-controlling interest of a subsidiary	**–**	(1,115)
Payment for repurchase of convertible preferred shares	**–**	(53)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**924,582**	(170,886)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**713,462**	(267,077)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**876,532**	1,126,957
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	**(11,517)**	16,652
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,578,477**	876,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL

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

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

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

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

Amendments to HKFRSs that are mandatory effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

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

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

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

Amendments to HKAS 7 *Disclosure Initiative* (Cont'd)

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 52. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 52, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2021.

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

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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

HKFRS 9 *Financial Instruments* (Cont'd)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 19: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the fair value gains or losses accumulated in the available-for-sale investment reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;
- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 19: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the available-for-sale investment reserve. Upon initial application of HKFRS 9, no fair value gain relating to these securities would be adjusted to the available-for-sale investment reserve as at 1 January 2018;
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would not be significantly different as compared to the accumulated amount recognised under HKAS 39.

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

HKFRS 15 *Revenue from Contracts with Customers*

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

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

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents the operating lease payments as operating cash flows under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB169,548,000 as disclosed in Note 51. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

The directors of the Company anticipate that the application of other new and amendments to the standards will have no material impact on the financial performance and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation

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

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries

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

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

Business combinations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash generating unit ("CGU") (or group of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

The group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates (Cont'd)

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

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

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

Interest in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interest in a joint venture (Cont'd)

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

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

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Property held for sale

Property held for sale is measured at the lower of their carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Online and mobile games revenue

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

Education revenue

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Maintenance contract sales

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

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

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised when services are provided.

Construction contracts

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Government grants

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

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

Property, plant and equipment

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

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

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

Investment properties

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

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

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

Leasehold land and building

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets

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

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets other than goodwill (Cont'd)

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Properties under development

Properties under development for sale which are intended to be sold upon completion of development are classified as current assets, and are carried at the lower of cost and net realisable value. Cost comprises the related land cost, development expenditure incurred and, where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Properties under development for sale are transferred to completed properties for sale upon completion of development.

Leasing

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

The Group as lessor

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as lessee

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

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

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

Financial instruments

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

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

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Effective interest method

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

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held-for-trading or (ii) it is designated as at FVTPL.

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the 'other income and gains'. Fair value is determined in the manner described in Note 46.

Loans and receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Available-for-sale financial assets

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

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method, are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale investment reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale investment reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

Impairment of financial assets

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of available-for-sale investment reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments

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

Equity instruments

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

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

Effective interest method

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held-for-trading or (ii) it is designated as at FVTPL.

A financial liability other than a financial liability held-for-trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities at FVTPL (Cont'd)

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net gain (loss) on convertible preferred shares' line item. Fair value is determined in the manner described in Note 46.

Convertible preferred shares

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

Financial liabilities at amortised cost

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

Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payment transactions

Equity-settled share-based payment transactions

Share option scheme

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

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

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

Share award scheme

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure

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

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

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

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

Retirement benefit costs

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

Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

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

Provisions

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

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

Warranties

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

Restructurings

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

Onerous contracts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying the accounting policies

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

Accounting for companies governed under contractual arrangements as subsidiaries

The Company and its subsidiaries do not hold any equity interests in NetDragon (Fujian), nor, in any of NetDragon (Fujian)'s subsidiaries, 福建省華漁教育科技有限公司 ("Fujian Huayu") and 福建省天晴互動娛樂有限公司（"天晴互娛"）. Nevertheless, under the contractual agreements entered into between the Group, NetDragon (Fujian) and the Ultimate Controlling Shareholders who are the registered owners of NetDragon (Fujian), the directors of the Company determine that the Group has the power to govern the financial and operating policies of NetDragon (Fujian), Fujian Huayu and 天晴互娛 so as to obtain benefits from their activities. As such, NetDragon (Fujian), Fujian Huayu and 天晴互娛 are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB1,841,412,000 (2016: RMB1,229,184,000) for the year ended 31 December 2017. At 31 December 2017, total assets and total liabilities of these entities amounted to approximately RMB867,960,000 (2016: RMB523,328,000) and RMB358,884,000 (2016: RMB121,682,000), respectively.

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

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

Deferred taxation on investment properties

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

Key sources of estimation uncertainty

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

Online and mobile game revenue recognition

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

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

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

Key sources of estimation uncertainty (Cont'd)

Estimated impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the CGUs to which goodwill and intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss or further impairment loss may arise. As at 31 December 2017, the carrying amounts of goodwill and intangible assets are RMB388,675,000 and RMB715,578,000 respectively. Details of the recoverable amount calculation of goodwill and intangible assets with indefinite useful lives are disclosed in Note 22.

Allowances on trade receivables

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and the allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at an effective interest rate computed at initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables is RMB383,984,000 (2016: RMB363,183,000).

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

Key sources of estimation uncertainty (Cont'd)

Valuation of intangible assets arising from acquisition of Jumpstart Games, Inc and its subsidiaries (collectively referred to as "Jumpstart Group"), Cherrypicks Alpha Holdings Limited ("Cherrypicks Alpha Holdings") and Cherrypicks Alpha Resources Limited ("Cherrypicks Alpha Resources")

During the year ended 31 December 2017, the Group has completed the acquisition of Jumpstart Group (2016: Cherrypicks Alpha Holdings and Cherrypicks Alpha Resources). The fair value of the intangible assets as at the date of business acquisition was based on valuations performed by an independent professional valuer. In estimating the fair value of the intangible assets, significant judgement was exercised by management in the preparation of the discounted cash flows which require the estimation of key assumptions and inputs including terminal value, discount rates and growth rates, which would affect the allocation of fair value to the intangible assets acquired in the business acquisition. Details of which are set out in Note 43.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 46 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5. REVENUE, OTHER INCOME AND GAINS

	2017 RMB'000	2016 RMB'000
Revenue		
Online game revenue	**1,672,858**	1,210,034
Education revenue	**2,105,290**	1,526,298
Mobile solution, products and marketing revenue	**89,475**	56,771
	3,867,623	2,793,103

	2017 RMB'000	2016 RMB'000
Other income and gains		
Gain on fair value changes of investment properties	**10,726**	–
Government grants *(Note)*	**61,591**	87,798
Interest income	**7,066**	17,502
Donation	**540**	–
Net foreign exchange gain	**–**	16,760
Net gain on disposal of property, plant and equipment	**–**	7,637
Game implementation income	**5,413**	8,158
Gain on disposal of assets classified as held for sale	**–**	1,601
Rental income, net of negligible outgoing expenses	**6,803**	6,570
Server rental income	**290**	662
Reversal of allowance for doubtful debts	**572**	3,051
Others	**2,964**	13,279
	95,965	163,018

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

6. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	5,918	5,115
Interest on promissory note	1,068	—
Other interest expense	3,423	3,535
	10,409	8,650

7. SEGMENT INFORMATION

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

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

2017

	Online game RMB'000	Education RMB'000	Mobile solution, products and marketing RMB'000	Total RMB'000
Segment revenue	1,672,858	2,105,290	89,475	3,867,623
Segment profit (loss)	807,912	(491,711)	(2,406)	313,795
Unallocated income and gains				19,434
Unallocated expenses and losses				(364,980)
Net gain on held-for-trading investment				23
Loss before taxation				(31,728)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

7. SEGMENT INFORMATION (Cont'd)

2016

	Online game RMB'000	Education RMB'000	Mobile solution, products and marketing RMB'000	Total RMB'000
Segment revenue	1,210,034	1,526,298	56,771	2,793,103
Segment profit (loss)	168,497	(82,499)	(22,115)	63,883
Unallocated income and gains				22,250
Unallocated expenses and losses				(310,441)
Net gain on held-for-trading investment				15,546
Loss before taxation				(208,762)

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

	2017 RMB'000	2016 RMB'000
Online game	**2,377,169**	2,191,394
Education	**2,257,793**	1,802,731
Mobile solution, products and marketing	**200,240**	195,575
Total segment assets	**4,835,202**	4,189,700
Unallocated	**1,000,455**	589,268
	5,835,657	4,778,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

7. SEGMENT INFORMATION (Cont'd)

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

Geographical information

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

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

	2017 **RMB'000**	2016 RMB'000
PRC	**1,890,481**	1,300,127
USA	**1,032,998**	842,043
Hong Kong	**86,881**	53,011
Russia	**236,880**	18,787
UK	**153,290**	166,418
Germany	**68,542**	54,310
France	**49,143**	48,578
Australia	**50,810**	32,858
Italy	**25,827**	29,332
Ireland	**23,896**	13
Netherlands	**18,164**	26,060
Turkey	**26**	23,056
Others	**230,685**	198,510
	3,867,623	2,793,103

7. SEGMENT INFORMATION (Cont'd)

Geographical information (Cont'd)

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

	2017 RMB'000	2016 RMB'000
PRC	**1,947,947**	1,899,480
UK	**773,642**	783,495
Hong Kong	**309,040**	264,858
USA	**74,668**	6,954
France	**135**	238
Germany	**265**	17
Thailand	**1,160**	27
	3,106,857	2,955,069

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8. TAXATION

	2017 RMB'000	2016 RMB'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	**6,209**	4,751
– Under provision in prior years	**230**	–
	6,439	4,751
PRC Enterprise Income Tax ("EIT")		
– Current year	**55,450**	43,484
– Withholding tax	**6,419**	198
– Under (over) provision in prior years	**60**	(143)
	61,929	43,539
Taxation in other jurisdiction		
– Current year	**1,441**	593
– Over provision in prior years	**(2,788)**	(8,536)
	(1,347)	(7,943)
Deferred tax		
– Origination and reversal of temporary differences	**(525)**	177
– Crystallisation of deferred tax on intangible assets	**(9,287)**	(12,502)
	(9,812)	(12,325)
	57,209	28,022

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

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

8. TAXATION (Cont'd)

Fujian TQ Digital Inc. ("TQ Digital"), a wholly foreign-invested enterprise, had been declared and approved as a key software enterprise on 31 May 2016 by the State Administration of Taxation (國家稅務局) which will be subject to enterprise income tax at the reduced rate of 10% and the qualification of key software enterprise is subject to review every year. Therefore, TQ Digital was entitled to a preferential EIT rate of 10% for the years ended 31 December 2017 and 2016.

On 1 December 2016, Fujian TQ Online Interactive Inc. ("TQ Online") was approved to be a hi-tech enterprise and is entitled to a reduced tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every three years. Therefore, the tax rate of TQ Online for the years ended 31 December 2017 and 2016 is 15%.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of NetDragon (Fujian) is 25% for both years.

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

For the year ended 31 December 2017, the USA income tax rates applicable to a subsidiary incorporated in the USA is 39% (2016: 39%) for federal tax and 8.84% (2016: 8.84%) for state income tax.

The United Kingdom Finance Act 2016 included a reduction in the United Kingdom Corporation tax rate from 20% to 19% effective from the finance year beginning 1 April 2017. Therefore, United Kingdom Corporation tax rate applicable to subsidiaries are 20% from 1 January 2017 to 31 March 2017, and 19% effective from 1 April 2017 (for the year ended 31 December 2016: 20%).

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8. TAXATION (Cont'd)

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

	2017 RMB'000	2016 RMB'000
Loss before taxation	**(31,728)**	(208,762)
Tax at the applicable tax rate of 25% (2016: 25%) (Note a)	**(7,932)**	(52,191)
Tax effect of share of losses of associates	**160**	216
Tax effect of share of loss of a joint venture	**142**	–
Tax effect of income not taxable for tax purpose	**(49,826)**	(76,906)
Tax effect of expenses not deductible for tax purpose	**80,342**	38,970
Tax effect of temporary difference not recognised	**(1,992)**	25,859
Utilisation of tax losses previously not recognised	**(1,160)**	(438)
Tax effect of tax loss not recognised	**101,431**	106,009
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,946)**	40,999
Additional tax benefit on development expenses (Note b)	**(3,516)**	(3,353)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	**(61,497)**	(43,206)
Over provision in prior years	**(2,498)**	(8,679)
Withholding tax at 10% distributable profit	**6,412**	–
Others	**89**	742
Tax charge for the year	**57,209**	28,022

Notes:

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2017 and 2016.

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

Details of deferred taxation are set out in Note 23.

9. LOSS FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**13,416**	11,273
Other staff costs		
Salaries and other benefits	**1,329,023**	1,165,450
Contributions to retirement benefits schemes	**131,368**	105,863
Share-based payments expense	**1,409**	949
	1,475,216	1,283,535
Auditor's remuneration		
– audit services	**4,981**	4,392
– non-audit services	**1,081**	8,519
	6,062	12,911
Amortisation of intangible assets	**83,728**	128,279
Amortisation of prepaid lease payments (included in administrative expenses)	**13,211**	5,687
Depreciation of property, plant and equipment	**159,498**	148,043
Total depreciation and amortisation	**256,437**	282,009
Cost of goods sold for education equipment	**1,434,543**	994,182
Advertising and promotion expenses (included in selling and marketing expenses)	**186,061**	148,755
Impairment of property, plant and equipment	**–**	3,885
Impairment of property held for sale	**1,625**	–
Impairment of available-for-sale investments	**28,687**	–
Impairment of trade and other receivables	**847**	10,794
(Write-back) write-off of deposit paid for acquisition of property, plant and equipment	**(1,162)**	1,162
Write-off of inventories	**13,306**	–
Operating lease rentals in respect of		
– rented premises	**66,855**	63,851
– computer equipment	**55,484**	46,535
Gross rental income from investment properties	**(1,711)**	(1,684)
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	**–**	–
	(1,711)	(1,684)
Impairment of intangible asset	**–**	61,092
Activwall education hardware product (included in inventories)	**–**	6,617
Provision for purchase orders surrendered	**–**	10,065
Provision for product impairment (Note)	**–**	77,774
Net loss (gain) on disposal of property, plant and equipment	**1,867**	(7,637)
Fair value change of remeasurement of previously held equity interest in an associate upon acquisition	**–**	1,075
Fair value (gain) loss of investment properties	**(10,726)**	1,114
Net foreign exchange loss	**21,742**	5,064

Note: Provision for impairment of Activwall education hardware product represents provision made by the Group for a specific product in relation to the education segment since the management has halted the sales of that specific education product due to the past performance and future market development.

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FOR THE YEAR ENDED 31 DECEMBER 2017

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and the chief executive's emoluments

The emoluments paid or payable to each of the nine (2016: nine) directors of the Company were as follows:

	2017				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	–	721	–	10	731
Mr. Liu Luyuan (Note)	–	723	28	10	761
Mr. Zheng Hui	–	301	34	–	335
Mr. Chen Hongzhan	–	660	23	10	693
Dr. Leung Lim Kin, Simon	–	5,730	15	2,100	7,845
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Chao Guowei, Charles	528	–	–	489	1,017
Mr. Lee Kwan Hung	528	–	–	489	1,017
Mr. Liu Sai Keung, Thomas	528	–	–	489	1,017
	1,584	8,135	100	3,597	13,416

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10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Cont'd)

Directors' and the chief executive's emoluments (Cont'd)

	2016				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	–	669	–	119	788
Mr. Liu Luyuan (Note)	–	671	25	119	815
Mr. Zheng Hui	–	368	31	15	414
Mr. Chen Hongzhan	–	846	21	119	986
Dr. Leung Lim Kin, Simon	–	4,225	16	1,851	6,092
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Chao Guowei, Charles	480	–	–	246	726
Mr. Lee Kwan Hung	480	–	–	246	726
Mr. Liu Sai Keung, Thomas	480	–	–	246	726
	1,440	6,779	93	2,961	11,273

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

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

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

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10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Cont'd)

Five highest paid employees

Of the five highest emoluments in the Group, during both reporting periods, one (2016: one) was executive director of the Company, whose emoluments are set out above. The emoluments of the remaining four individuals (2016: four) who are neither a director nor chief executive of the Company were as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other benefits	**16,621**	14,304
Contribution to retirement benefits schemes	**337**	90
Share-based payments expense	**–**	529
	16,958	14,923

Their emoluments were within the following bands:

	2017 Number of employees	2016 Number of employees
In Hong Kong dollar ("HKD")		
HKD3,000,001 to HKD3,500,000	**–**	1
HKD3,500,001 to HKD4,000,000	**1**	1
HKD4,000,001 to HKD4,500,000	**2**	1
HKD6,000,001 to HKD6,500,000	**–**	1
HKD7,000,001 to HKD7,500,000	**1**	–
	4	4

During the year ended 31 December 2017, no emoluments have been paid by the Group to any of the directors or the chief executive of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or the chief executive of the Company waived any remuneration during the years ended 31 December 2017 and 2016.

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11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends recognised as distribution during the year:		
2017 Interim - HKD0.10 (2016: 2016 Interim dividend of HKD0.10) per share	43,137	42,494
2016 Final - HKD0.10 (2016: 2015 Final dividend of HKD0.10) per share	44,458	41,589
	87,595	84,083

The final dividend of HKD0.10 (2016: HKD0.10) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB44,661,000 (2016: RMB44,374,000).

12. 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:

	2017 RMB'000	2016 RMB'000
Loss for the purpose of basic and diluted loss per share:		
– Loss for the year attributable to the owners of the Company	(20,843)	(202,742)

	Number of shares 2017 '000	 2016 '000
Weighted average number of shares in issue during the year for the purpose of basic loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	506,081	495,385

Note: The calculation of diluted loss per share for the year ended 31 December 2017 and 2016 did not assume the exercise of the Company's outstanding share options as the exercise of the Company's share options would result in decrease in loss per share.

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13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Plant and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2016	425,831	324,239	586,094	40,241	435,478	1,811,883
Exchange adjustments	(911)	1,283	(11,042)	116	(276)	(10,830)
Additions	706	12,641	92,640	10,099	103,038	219,124
Acquired on acquisition of subsidiaries (Note 43)	–	421	354	–	–	775
Reclassification	118,337	54,401	–	–	(172,738)	–
Disposals	(7,917)	(1,312)	(83,759)	(1,337)	–	(94,325)
Transfer to properties under development	–	–	–	–	(16,104)	(16,104)
At 31 December 2016	**536,046**	**391,673**	**584,287**	**49,119**	**349,398**	**1,910,523**
Exchange adjustments	**464**	**(1,220)**	**202**	**(16)**	**106**	**(464)**
Additions	**–**	**36,095**	**80,335**	**8,409**	**231,646**	**356,485**
Acquired on acquisition of subsidiaries (Note 43)	**–**	**–**	**97**	**–**	**–**	**97**
Reclassification	**–**	**20,739**	**3,333**	**–**	**(24,072)**	**–**
Disposals	**(4,370)**	**(33)**	**(68,474)**	**(6,191)**	**–**	**(79,068)**
Transfer to properties under development	**–**	**–**	**–**	**–**	**(104,712)**	**(104,712)**
At 31 December 2017	**532,140**	**447,254**	**599,780**	**51,321**	**452,366**	**2,082,861**

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

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	38,929	95,399	411,166	20,272	–	565,766
Exchange adjustments	(267)	831	(9,661)	109	–	(8,988)
Provided for the year	22,904	32,383	84,068	8,688	–	148,043
Eliminated on disposals	(239)	(1,108)	(80,229)	(1,101)	–	(82,677)
Impairment loss recognised in profit or loss	–	222	3,628	35	–	3,885
At 31 December 2016	61,327	127,727	408,972	28,003	–	626,029
Exchange adjustments	446	(977)	300	(11)	–	(242)
Provided for the year	25,473	35,241	89,214	9,570	–	159,498
Eliminated on disposals	(4,370)	(33)	(65,571)	(5,476)	–	(75,450)
At 31 December 2017	82,876	161,958	432,915	32,086	–	709,835
CARRYING VALUES						
At 31 December 2017	449,264	285,296	166,865	19,235	452,366	1,373,026
At 31 December 2016	474,719	263,946	175,315	21,116	349,398	1,284,494

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

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

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

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

	2017	2016
	RMB'000	RMB'000
In UK	**–**	616
In the PRC other than in Hong Kong	**449,264**	474,103
	449,264	474,719

14. PREPAID LEASE PAYMENTS

	2017	2016
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**9,866**	6,003
Non-current assets	**515,299**	509,018
	525,165	515,021

The Group's prepaid lease payments are located in the PRC. Inclusion in the prepaid lease payments are land use rights with carrying amount of RMB63,378,000 (2016: RMB233,203,000) which the Group is in the process of obtaining the land use right certificates.

15. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2016	55,377
Exchange adjustments	3,701
Net decrease in fair value recognised in profit or loss	(1,114)
At 31 December 2016	**57,964**
Exchange adjustments	**(4,158)**
Net increase in fair value recognised in profit or loss	**10,726**
At 31 December 2017	**64,532**

The fair values of the Group's investment properties, including both land and building elements, as at 31 December 2017 and 31 December 2016 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 other 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 31 December 2017 and 2016.

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16. INTANGIBLE ASSETS

	Trademarks	Licence	Non-competition agreement	Customers relationship	Patent and technology	Development costs	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)		(Note b)	(Note b)	(Note c)	(Note d)		
COST								
At 1 January 2016	282,065	26,174	61,031	155,684	332,359	113,680	33,041	1,004,034
Exchange adjustments	(34,794)	–	–	(10,176)	(34,090)	(13,081)	(2,350)	(94,491)
Additions	–	3,766	–	–	–	21,966	–	25,732
Acquired on acquisition of subsidiaries (Note 43)	–	–	–	–	17,429	–	–	17,429
Write-off for the year	(694)	–	–	–	–	–	–	(694)
At 31 December 2016	**246,577**	**29,940**	**61,031**	**145,508**	**315,698**	**122,565**	**30,691**	**952,010**
Exchange adjustments	**6,807**	**–**	**–**	**2,245**	**6,537**	**3,840**	**518**	**19,947**
Additions	**–**	**701**	**–**	**–**	**–**	**36,851**	**–**	**37,552**
Acquired on acquisition of subsidiaries (Note 43)	**24,674**	**–**	**–**	**–**	**–**	**–**	**–**	**24,674**
At 31 December 2017	**278,058**	**30,641**	**61,031**	**147,753**	**322,235**	**163,256**	**31,209**	**1,034,183**

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16. INTANGIBLE ASSETS (Cont'd)

	Trademarks	Licence	Non-competition agreement	Customers relationship	Patent and technology	Development costs	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)		(Note b)	(Note b)	(Note c)	(Note d)		
AMORTISATION AND IMPAIRMENT								
At 1 January 2016	1,233	5,804	9,813	13,062	6,420	3,372	10,380	50,084
Exchange adjustments	44	–	–	(884)	(1,783)	(5,540)	(1,086)	(9,249)
Provided for the year	450	8,781	6,802	19,893	32,074	45,138	15,141	128,279
Impairment (Note c)	–	–	–	–	–	61,092	–	61,092
Write-off for the year	(694)	–	–	–	–	–	–	(694)
At 31 December 2016	**1,033**	**14,585**	**16,615**	**32,071**	**36,711**	**104,062**	**24,435**	**229,512**
Exchange adjustments	**–**	**–**	**–**	**472**	**842**	**3,534**	**517**	**5,365**
Provided for the year	**449**	**6,502**	**6,783**	**19,610**	**32,210**	**17,346**	**828**	**83,728**
At 31 December 2017	**1,482**	**21,087**	**23,398**	**52,153**	**69,763**	**124,942**	**25,780**	**318,605**
CARRYING VALUES								
At 31 December 2017	**276,576**	**9,554**	**37,633**	**95,600**	**252,472**	**38,314**	**5,429**	**715,578**
At 31 December 2016	245,544	15,355	44,416	113,437	278,987	18,503	6,256	722,498

16. INTANGIBLE ASSETS (Cont'd)

Notes:

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

   As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in Note 22.

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

c. Patent and technology represents the acquired technological know-how for producing Interactive Whiteboard ("IWB"), Interactive Flat Panel ("IFP"), and augmented reality ("AR") and various mobile application. The patent and technology were acquired from the acquisition of Promethean World Limited and its subsidiaries (collectively referred to as "Promethean Group"), Cherrypicks Alpha Holdings and its subsidiaries (collectively referred to as "Cherrypicks Alpha Group") and Cherrypicks Alpha Resources.

d. Development costs represent the software internally generated for a cloud-based teaching and learning platform which connects students' tablets and laptops to interactive displays (IWB and IFP). The development costs were acquired on acquisition of Promethean Group and amounted to RMB61,092,000 in 2016 in relation to certain education product had been impaired, due to that management has halted the sales of that education product.

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

Trademarks	10% - 57.14%
Licence	20% - 50%
Non-competition agreement	11.11%
Customers relationship	10% - 16.67%
Patent and technology	10%
Development costs	33.33%
Others	10% - 50%

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17. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Unlisted investments:		
Cost of investments	28,992	31,572
Share of post-acquisition losses	(13,031)	(13,551)
Derecognition of an associate	–	(1,238)
Group's share of net assets of associates	15,961	16,783

As at 31 December 2017 and 2016, the Group had interests in the following associates:

Name of entities	Proportion of ownership interest and voting rights held by the Group 2017	2016	Country of establishment/ operation	Registered capital	Principal activities
101 Education Technology Co. Ltd. ("101 Cayman") (Note)	49.0%	49.0%	Cayman Islands	US dollar ("USD") 8,000,000	Investment holding
101 Education Technology Co. Ltd. ("101 BVI") (Note)	49.0%	49.0%	British Virgin Islands ("BVI")	USD8,000,000	Investment holding
101 Education Technology (Hong Kong) Co. Ltd. ("101 HK") (Note)	49.0%	49.0%	Hong Kong	USD8,000,000	Provision of online education and related application business
福建創思教育科技有限公司 ("福建創思教育") (Note)	49.0%	49.0%	PRC	USD8,000,000	Provision of online education and related application business
福建一零一教育科技有限公司 ("福建一零一教育") (Note)	49.0%	49.0%	PRC	RMB10,000,000	Provision of online education and related application business

Note: The Group holds 49% of the issued share capital of 101 Cayman, 101 BVI, 101 HK, 福建創思教育 (collectively referred to as "101 Education Group") and 福建一零一教育, and has the power to appoint three directors out of seven directors in the board. Therefore, 101 Education Group and 福建一零一教育 are classified as associates of the Group as at 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. INTERESTS IN ASSOCIATES (Cont'd)

Summarised financial information of material associates

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

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

101 Education Group

	2017 **RMB'000**	2016 RMB'000
Current assets	**33,249**	34,017
Non-current assets	**245**	446
Current liabilities	**1,599**	1,619
Revenue	**6,383**	12,153
Loss for the year	**(949)**	(1,371)

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

	2017 **RMB'000**	2016 RMB'000
Net assets of 101 Education Group	**31,895**	32,844
Proportion of the Group's ownership interest in the 101 Education Group	**49.0%**	49.0%
Carrying amount of the Group's interest in the 101 Education Group	**15,629**	16,094

17. INTERESTS IN ASSOCIATES (Cont'd)

福建一零一教育

	2017 RMB'000	2016 RMB'000
Current assets	**6,322**	10,717
Non-current assets	**391**	823
Current liabilities	**6,035**	10,134
Revenue	**2,972**	16,259
Loss for the year	**(728)**	(361)

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

	2017 RMB'000	2016 RMB'000
Net assets of 福建一零一教育	**678**	1,406
Proportion of the Group's ownership interest in 福建一零一教育	**49.0%**	49.0%
Carrying amount of the Group's interest in 福建一零一教育	**332**	689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. INTEREST IN A JOINT VENTURE

	2017 RMB'000	2016 RMB'000
Unlisted investment:		
Cost of investment	18,000	–
Share of post-acquisition loss	(567)	–
Group's share of net assets of a joint venture	17,433	–

Name of entity	Proportion of ownership interest and voting rights held by the Group 2017	2016	Country of establishment/ operation	Registered capital	Principal activities
福建省國騰信息科技有限公司 ("國騰") (Note)	60.0%	–	PRC	RMB1,000,000,000	Application of information technologies, virtual reality and augmented reality technology

Note: 國騰 is a joint venture company of the Group although the Group has 60% ownership interest and voting rights in 國騰. The directors of the Company assessed whether or not the Group has joint control over 國騰 based on whether decisions about the relevant activities of the arrangement can be made without the Group agreeing. Pursuant to an agreement signed between the three joint venturers, the other two joint venturers own 40% of shareholdings in 國騰 in aggregate, and that at least two-thirds of the voting rights are required to make decisions about the relevant activities of the arrangement. After assessment, the directors of the Company concluded that decisions about the relevant activities of the arrangement cannot be made without the Group agreeing and therefore the Group has joint control over 國騰.

Summarised financial information of a joint venture

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

The joint venture is accounted for using the equity method in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. INTEREST IN A JOINT VENTURE (Cont'd)

國騰

	2017	2016
	RMB'000	RMB'000
Current assets	**29,614**	N/A
Non-current asset	**15**	N/A
Current liabilities	**(574)**	N/A
Revenue	**–**	N/A
Loss for the year	**(945)**	N/A

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

	2017	2016
	RMB'000	RMB'000
Net assets of 國騰	**29,055**	N/A
Proportion of the Group's ownership interest in 國騰	**60.0%**	N/A
Carrying amount of the Group's interest in 國騰	**17,433**	–

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FOR THE YEAR ENDED 31 DECEMBER 2017

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	RMB'000	RMB'000
Unlisted equity securities in the PRC		
– 福建楊振華 851 生物科技股份有限公司		
(Fujian Yangzhenhua 851 Bio-Engineering Inc.) (Note a)	**4,000**	4,000
– 青島信通物聯網絡有限公司 (Note b)	**1,000**	1,000
	5,000	5,000
Equity securities listed in Canada		
– ARHT Media Inc. (Note c)	**5,859**	12,883
	10,859	17,883

Notes:

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

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

c. The entity is a listed entity and its shares are listed in Toronto Stock Exchange. In 2016, the Group acquired 19.99% equity interest in this entity.

The unlisted equity securities in the PRC are stated at cost less impairment at the end of the reporting period because the directors of the Company are of the opinion that its fair value cannot be measured reliably. The fair value of the listed equity securities is based on their current bid prices in active markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

20. LOAN RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Fixed-rate loan receivables	**14,195**	28,053
Variable-rate loan receivables	**8,877**	6,136
	23,072	34,189
Analysed as:		
Current	**4,662**	13,712
Non-current	**18,410**	20,477
	23,072	34,189

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

	2017	2016
Effective interest rates:		
Fixed-rate loan receivables (per annum)	**3.33% - 4.9%**	3.33% - 8%
Variable-rate loan receivables (per annum)	**2.15% - 5%**	2.15%

Included in loan receivables, RMB17,462,000 (2016: RMB24,666,000) represents loans to certain key management and staff. Loan receivables are not past due or impaired at the end of the reporting period. The loans are either repayable by instalments until 2018, 2019, 2020, 2022 or 2035 (2016: 2017, 2018, 2019, 2020, 2021 or 2035) or repayable in whole in 2019 and 2022 (2016: 2017 and 2019). An amount of RMB3,267,000 is secured by shares and the remaining amounts are unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

21. GOODWILL

	2017	2016
	RMB'000	RMB'000
COST AND CARRYING VALUES		
At 1 January	**338,237**	334,839
Arising on acquisition of subsidiaries (Note 43)	**46,939**	36,127
Exchange adjustments	**3,499**	(32,729)
At 31 December	**388,675**	338,237

Particulars regarding impairment testing on goodwill are disclosed in Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

22. 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 21 and 16 have been allocated to nine individual or groups of CGUs, comprising three subsidiaries in the online game segment, four 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 31 December 2017 and 31 December 2016 allocated to these units are as follows:

	Goodwill		**Trademarks**	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Online game:				
CGU-1	**6,104**	6,104	**–**	–
CGU-2	**8**	8	**–**	–
CGU-3	**15,247**	16,316	**–**	–
	21,359	22,428	**–**	–
Education:				
CGU-4	**12,534**	12,534	**–**	–
CGU-5	**31,097**	31,097	**–**	–
CGU-6	**236,461**	229,194	**249,981**	242,299
CGU-7	**45,255**	–	**23,800**	–
	325,347	272,825	**273,781**	242,299
Mobile solution, products and marketing:				
CGU-8	**27,479**	27,479	**–**	–
CGU-9	**14,490**	15,505	**–**	–
	41,969	42,984	**–**	–
At 31 December	**388,675**	338,237	**273,781**	242,299

22. 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 13.44% (2016: 14.28%), 13.44% (2016: 14.28%), 27.30% (2016: 23.46%), 13.44% (2016: 14.28%), 24.10% (2016: 24.77%), 23.84% (2016: 22.78%), 15.20% (2016: Nil), 20.65% (2016: 17.62%) and 21.44% (2016: 18.45%) for CGU-1 to CGU-9 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 years ended 31 December 2017 and 2016, management of the Group determines that there is no impairment of any of its CGUs containing goodwill or trademarks with indefinite useful lives.

23. DEFERRED TAXATION

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

	2017	2016
	RMB'000	RMB'000
Deferred tax assets	**4,160**	3,445
Deferred tax liabilities	**(130,466)**	(123,218)
	(126,306)	(119,773)

23. DEFERRED TAXATION (Cont'd)

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

	Accelerated tax depreciation allowance	Property, plant and equipment	Intangible assets	Inventories	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	(150)	521	(149,843)	81	1,927	1,082	(146,382)
Credited (charged) to profit or loss	10	300	12,502	(22)	82	(547)	12,325
Arising on acquistion of subsidiaries (Note 43)	–	–	(2,876)	–	–	–	(2,876)
Exchange adjustments	(10)	(10)	17,149	1	55	(25)	17,160
At 31 December 2016	(150)	811	(123,068)	60	2,064	510	(119,773)
(Charged) credited to profit or loss	(44)	(803)	9,287	1,398	479	(505)	9,812
Arising on acquistion of subsidiaries (Note 43)	–	–	(10,571)	–	–	(3,020)	(13,591)
Exchange adjustments	11	(8)	(3,018)	14	145	102	(2,754)
At 31 December 2017	(183)	–	(127,370)	1,472	2,688	(2,913)	(126,306)

At the end of the reporting period, the Group has taxable temporary differences associated with undistributed earnings of PRC subsidiaries of RMB2,089,619,000 (2016: RMB1,699,692,000). No deferred tax liability has been recognised for the undistributed earnings of RMB2,089,619,000 (2016: RMB1,699,692,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The Group also has not recognised deferred tax assets arising from tax losses amounting to approximately RMB1,278,660,000 (2016: RMB769,993,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. Included in unrecognised tax losses are losses of approximately RMB1,278,660,000 (2016: RMB769,993,000) that will expire within five years from the end of the reporting period.

24. 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.

	2017	2016
	RMB'000	RMB'000
Trade debtors		
0 - 30 days	**227,847**	219,717
31 - 60 days	**81,630**	72,091
61 - 90 days	**29,269**	26,646
Over 90 days	**29,509**	25,980
Receivables with extended credit terms		
Due within one year	**11,817**	7,259
Due after one year	**3,912**	11,490
	383,984	363,183

Before accepting any new agent/customer, the Group uses an internal credit assessment policy to assess the potential agent/customer's credit quality and define credit limits by agent/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB78,909,000 (2016: RMB81,315,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

24. TRADE RECEIVABLES (Cont'd)

Ageing of trade receivables which are past due but not impaired

	2017 RMB'000	2016 RMB'000
31 - 60 days	**34,026**	40,622
61 - 90 days	**15,977**	14,167
Over 90 days	**28,906**	26,526
Total	**78,909**	81,315

Movement in the allowance for doubtful debts

	2017 RMB'000	2016 RMB'000
At beginning of year	**13,630**	14,600
Allowances recognised on receivables	**847**	6,794
Allowances reversed during the year	**(572)**	(3,051)
Allowances written off	**(7,054)**	(5,202)
Exchange differences	**(368)**	489
At end of year	**6,483**	13,630

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB6,483,000 (2016: RMB13,630,000) of which the debtors have been in dispute with the Group.

25. PROPERTIES UNDER DEVELOPMENT

The Group's properties under development are situated in the PRC. All of the properties under development are stated at the lower of cost and net realisable value. As at 31 December 2017, the properties under development are expected to be realised within twelve months from the end of the reporting period.

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26. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	8,268	3,681
Work in progress	134	461
Finished goods	98,028	121,143
	106,430	125,285

27. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 RMB'000	2016 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	29,442	26,655
Less: Progress billings	(14,611)	(17,003)
	14,831	9,652
Analysed for reporting process as:		
Amounts due from contract customers	16,522	10,640
Amounts due to contract customers	(1,691)	(988)
	14,831	9,652

28. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

The balance mainly represents deposits and prepayments for education equipment and office and server rental of approximately RMB166,540,000 (2016: RMB87,732,000), other tax receivables of approximately RMB28,524,000 (2016: RMB11,406,000), interest receivables of approximately RMB2,558,000 (2016: RMB2,029,000) and other miscellaneous items for operating and investing activities. An amount of approximately RMB15,150,000 (2016: RMB9,458,000) was paid to an agent to repurchase the Company's shares from the market.

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29. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) are as follows:

Name of related company	Terms	Balance at 31 December 2017 RMB'000	Balance at 31 December 2016 RMB'000	Maximum amount outstanding during the year 2017 RMB'000	Maximum amount outstanding during the year 2016 RMB'000
福州楊振華 851 生物工程技術研究開發有限公司 Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") (Note a)	Unsecured, non-interest bearing and repayable on demand	**1,704**	1,704	**2,858**	1,704
福州天亮網絡技術有限公司 Fuzhou Tianliang Network Technology Co., Limited ("Fuzhou Tianliang") (Note b)	Unsecured, non-interest bearing and repayable on demand	**–**	–	**83**	–
		1,704	1,704	**2,941**	1,704

Notes: a. Fuzhou 851 is an entity which is owned by DJM Holding Ltd. ("DJM"), the immediate holding company of the Company, and Mr. Liu Dejian, executive director and one of the Ultimate Controlling Shareholders of the Company, together in aggregate own 100% equity interest in this entity as of 31 December 2017 and 2016.

b. Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, which acts under the instruction of the Ultimate Controlling Shareholders.

30. AMOUNT(S) DUE FROM ASSOCIATES/A JOINT VENTURE

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

31. HELD-FOR-TRADING INVESTMENT

	2017 RMB'000	2016 RMB'000
Unlisted overseas bond	**–**	151,783

The fair value of unlisted overseas bond is determined by reference to price provided by the financial institution. The unlisted overseas bond was disposed during the year ended 31 December 2017.

32. RESTRICTED BANK DEPOSIT/RESTRICTED BANK BALANCES/PLEDGED BANK DEPOSITS/BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances, restricted bank deposit, restricted bank balances, pledged bank deposits and bank deposits carry interest at prevailing banking deposit rates which ranges from 0.001% to 2.750% (2016: 0.001% to 1.300%) per annum.

In the current year, restricted bank deposit represents deposit for litigation guarantee, restricted bank balances represent bank balances for guarantee completion of constructions and business and pledged deposits represent to secure a bank borrowing granted to the Group and to obtain credit card facility. In 2016, pledged bank deposit represents deposit pledged to a bank for issue of guarantees to independent third parties.

Included in restricted bank deposit, restricted bank balances, pledged bank deposits, bank deposits, bank balances and cash are the following amounts denominated in currency other than the functional currency of the respective group entities to which they relate:

	2017	2016
	RMB'000	RMB'000
RMB	**400**	356
HKD	**383,791**	22,630
USD	**565,998**	458,557
European dollar ("EURO")	**32,354**	2,227
Australian dollar ("AUD")	**806**	3,465
Great Britain Pound ("GBP")	**151**	712

33. PROPERTY HELD FOR SALE

	2017	2016
	RMB'000	RMB'000
Freehold land and building held for sale	**9,213**	–

As at 31 December 2017, the Group intended to dispose of a property located in the United States that is no longer utilised. An impairment loss of RMB1,625,000 has been recognised during year ended 31 December 2017.

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FOR THE YEAR ENDED 31 DECEMBER 2017

34. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	RMB'000
Trade payables	**242,169**	215,844
Accrued staff costs	**183,284**	161,940
Receipt in advance	**100,006**	32,179
Other tax payables	**26,476**	16,622
Other payables and accruals (Note)	**128,801**	105,172
	680,736	531,757

Note: Other payables and accruals mainly represent construction payable, advertising payable, office and server rental payable and other miscellaneous items for operating and investing activities.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2017	2016
	RMB'000	RMB'000
0 - 90 days	**230,001**	165,030
91 - 180 days	**7,931**	49,629
181 - 365 days	**2,288**	141
Over 365 days	**1,949**	1,044
	242,169	215,844

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35. PROVISIONS

	Warranty	Restructuring	Onerous lease	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)	(Note b)	(Note c)		
At 1 January 2016	25,842	3,381	2,177	–	31,400
Additional provision	18,447	5,634	1,906	10,202	36,189
Utilisation of provision	(10,345)	(3,019)	(2,025)	–	(15,389)
Exchange adjustments	(3,367)	(515)	(245)	(495)	(4,622)
At 31 December 2016	**30,577**	**5,481**	**1,813**	**9,707**	**47,578**
Additional provision	**26,428**	**–**	**–**	**1,392**	**27,820**
Release of provision	**–**	**–**	**(1,865)**	**–**	**(1,865)**
Utilisation of provision	**(18,149)**	**(5,638)**	**–**	**(9,986)**	**(33,773)**
Exchange adjustments	**994**	**157**	**52**	**283**	**1,486**
At 31 December 2017	**39,850**	**–**	**–**	**1,396**	**41,246**

	2017	2016
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Non-current	**–**	1,702
Current	**41,246**	45,876
	41,246	47,578

Notes:

a. The warranty provision is calculated by estimating the possible failure rates of the Promethean Group's hardware, with the exception of projectors which are covered by a third party warranty. The length of warranty period varies depending on both the product and the country the product is sold to; this period varies from one to five years.

The timing and frequency of product failures are inherently uncertain and for this reason the warranty provision has been disclosed as current.

b. Restructuring represents the reorganisation costs to restructure the business of Promethean Group, indirect non-wholly owned subsidiaries, to significantly reduce their operating cost base.

c. The onerous lease provision created in prior year arises from the exit of certain of the Promethean Group's premises in the UK and the USA due to the reorganisation of the Promethean Group to reduce its operating cost base in line with current market demand.

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

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

37. CONVERTIBLE PREFERRED SHARES

Best Assistant Education Online Limited ("Best Assistant"), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 12.6% 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 (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.

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.

37. CONVERTIBLE PREFERRED SHARES (Cont'd)

Liquidation

The holders of the Series A convertible preferred shares have preference over holders of ordinary shares and other equity securities with respect to payment of dividends and distribution of assets and funds upon liquidation of the subsidiary of the Company. The holders of the Series A convertible preferred shares shall be entitled to receive an amount equivalent to 300% of the issue price of Series A convertible preferred shares, plus all declared but unpaid dividends.

The Series A convertible preferred shares are classified as non-current liabilities.

The Group has elected to designate the Series A convertible preferred shares with embedded derivatives as financial liabilities at FVTPL on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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

	2017	2016
	RMB'000	RMB'000
At 1 January	**104,101**	278,499
Payment for repurchase of shares by the Group	**–**	(53)
Fair value change	**(2,809)**	(193,357)
Exchange adjustments	**(6,043)**	19,012
At 31 December	**95,249**	104,101

38. SECURED BANK BORROWINGS

During the year, the Group obtained new bank borrowings amounting to RMB1,679,758,000 (31 December 2016: RMB1,612,656,000). The secured bank borrowings carry interest at (i) interest rate of 200 to 250 basis points over one-month London Inter-Bank Offer Rate ("LIBOR") per annum, (ii) the higher of one-month LIBOR plus 0.66% or 2.5% per annum, (iii) one-month Hong Kong Inter-Bank Offer Rate plus 1.5% or 2.2% per annum, (iv) interest rate of 4.85% to 4.95% per annum and (v) interest rate of 5.20% per annum, and are repayable from 2018 to 2022. The borrowings were secured by share pledges over the shares of a subsidiary of the Group and fixed and floating charges over the assets of certain subsidiaries, a pledged bank deposit as mentioned in Note 32, a pledge of property of a subsidiary, corporate guarantee provided by the Company and corporate guarantee provided by subsidiaries.

39. PROMISSORY NOTE

On 1 July 2017, Digital Train Limited, a subsidiary of the Company has issued a promissory note with a total principal amount of USD7,075,000 (equivalent to approximately RMB47,946,000) to third parties, which carried interest at twelve-month LIBOR plus 2.5% per annum and had maturity in July 2018.

	2017
	RMB'000
Issue of promissory note	**47,946**
Exchange adjustments	**(1,720)**
At 31 December	**46,226**

40. OTHER PAYABLES

Other payables represent the remaining consideration for the acquisition of 蘇州馳聲信息科技有限公司 ("蘇州馳聲信息") in prior year and accrual of purchasing education resources.

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41. SHARE CAPITAL

	Number of shares	Nominal value USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2016, 31 December 2016 and 31 December 2017	**1,000,000,000**	**10,000,000**	**75,771**
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2016	497,674,020	4,976,740	36,726
Shares issued upon exercise of share options (Note i)	3,348,137	33,482	220
Repurchase and cancellation of shares (Note ii)	(6,040,000)	(60,400)	(446)
Shares issued upon acquisition of subsidiaries (Note iv)	1,087,621	10,876	71
At 31 December 2016	**496,069,778**	**4,960,698**	**36,571**
Shares issued upon exercise of share options (Note i)	**2,453,513**	**24,535**	**169**
Repurchase and cancellation of shares (Note ii)	**(2,737,500)**	**(27,375)**	**(201)**
Issue of new shares (Note iii)	**38,500,000**	**385,000**	**2,555**
At 31 December 2017	**534,285,791**	**5,342,858**	**39,094**

Notes:

(i) During the year ended 31 December 2017, 2,453,513 share options were exercised and as a result of 2,453,513 (2016: 3,348,137) ordinary shares were issued. Approximately RMB169,000 (2016: RMB220,000) and RMB15,906,000 (2016: RMB23,201,000) were recorded as share capital and share premium, respectively.

(ii) During the year ended 31 December 2017, the Company repurchased 2,737,500 (2016: 6,040,000) 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 RMB49,147,000 (2016: RMB101,666,000).

(iii) During the year ended 31 December 2017, 38,500,000 ordinary shares were issued to an ultimate controlling shareholder, Mr. Liu Dejian. Approximately RMB2,555,000 and RMB818,366,000 were recorded as share capital and share premium, respectively.

(iv) During the year ended 31 December 2016, 1,087,621 ordinary shares (2017: Nil) were issued as consideration for acquisition of Cherrypicks Alpha Resources as described in Note 43. Approximately RMB71,000 (2017: Nil) and RMB20,805,000 (2017: Nil) were recorded as share capital and share premium, respectively.

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42. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 12 June 2008. Subject to early termination, the Scheme shall be valid and effective for a period of 10 years from 12 June 2008. The purpose of the Scheme is to provide the eligible participant ("Eligible Participant") as defined in the Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Eligible Participants of the Scheme include employees, executives and officers of the members of the Group (including executive and non-executive directors of the members of the Group) and business consultants, agents and legal and financial advisers to the members of the Group whom the Board considers, in its sole discretion, will contribute or have contributed to the members of the Group.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 2,817,109 (31 December 2016: 5,048,022), representing 0.53% (31 December 2016: 1.02%) of the shares of the Company in issue at that date. As at the date of this report, the number of securities of the Company available for issue under the Scheme was 25,561,658, representing approximately 4.78% of the issued share capital of the Company as at the date of this report. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue as at the date of grant. Where any further grant of options to an Eligible Participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

(i) Equity-settled share option scheme (Cont'd)

Options granted must be taken up within 28 days from the date of the offer, upon payment of a nominal consideration of HKD1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

Details of specific categories of options are as follows:

Batch 1:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
7 December 2009	N/A	7 December 2009 - 6 December 2019	–
7 December 2009	7 December 2009 - 6 December 2010	7 December 2010 - 6 December 2019	–
7 December 2009	7 December 2009 - 6 December 2011	7 December 2011 - 6 December 2019	–
7 December 2009	7 December 2009 - 6 December 2012	7 December 2012 - 6 December 2019	–
7 December 2009	7 December 2009 - 6 December 2013	7 December 2013 - 6 December 2019	–
			–

Batch 2:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
28 April 2011	28 April 2011 - 27 April 2012	28 April 2012 - 27 April 2021	1,690
28 April 2011	28 April 2011 - 27 April 2013	28 April 2013 - 27 April 2021	8,927
28 April 2011	28 April 2011 - 27 April 2014	28 April 2014 - 27 April 2021	30,125
28 April 2011	28 April 2011 - 27 April 2015	28 April 2015 - 27 April 2021	28,125
28 April 2011	28 April 2011 - 27 April 2016	28 April 2016 - 27 April 2021	290,500
			359,367

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

(i) Equity-settled share option scheme (Cont'd)

Batch 3:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
22 July 2011	22 July 2011 - 21 July 2013	22 July 2013 - 21 July 2021	101
22 July 2011	22 July 2011 - 21 July 2014	22 July 2014 - 21 July 2021	5,500
22 July 2011	22 July 2011 - 21 July 2015	22 July 2015 - 21 July 2021	2,399
			8,000

Batch 4:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
23 April 2012	23 April 2012 - 22 April 2013	23 April 2013 - 22 April 2022	5,417
23 April 2012	23 April 2012 - 22 April 2014	23 April 2014 - 22 April 2022	111,925
23 April 2012	23 April 2012 - 22 April 2015	23 April 2015 - 22 April 2022	218,300
23 April 2012	23 April 2012 - 22 April 2016	23 April 2016 - 22 April 2022	50,375
23 April 2012	23 April 2012 - 22 April 2017	23 April 2017 - 22 April 2022	89,700
			475,717

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

(i) Equity-settled share option scheme (Cont'd)

Batch 5:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
6 July 2012	6 July 2012 - 5 July 2014	6 July 2014 - 5 July 2022	–
6 July 2012	6 July 2012 - 5 July 2016	6 July 2016 - 5 July 2022	–
6 July 2012	6 July 2012 - 5 July 2017	6 July 2017 - 5 July 2022	–
			–

Batch 6:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
12 September 2012	12 September 2012 - 11 September 2013	12 September 2013 - 11 September 2022	4,200
12 September 2012	12 September 2012 - 11 September 2014	12 September 2014 - 11 September 2022	6,300
12 September 2012	12 September 2012 - 11 September 2015	12 September 2015 - 11 September 2022	8,400
12 September 2012	12 September 2012 - 11 September 2016	12 September 2016 - 11 September 2022	14,250
12 September 2012	12 September 2012 - 11 September 2017	12 September 2017 - 11 September 2022	17,100
			50,250

Batch 7:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
16 January 2013	16 January 2013 - 15 January 2014	16 January 2014 - 15 January 2023	6,350
16 January 2013	16 January 2013 - 15 January 2015	16 January 2015 - 15 January 2023	10,175
16 January 2013	16 January 2013 - 15 January 2016	16 January 2016 - 15 January 2023	44,100
16 January 2013	16 January 2013 - 15 January 2017	16 January 2017 - 15 January 2023	68,000
16 January 2013	16 January 2013 - 15 January 2018	16 January 2018 - 15 January 2023	148,650
			277,275

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

(i) Equity-settled share option scheme (Cont'd)

Batch 8:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
4 December 2013	4 December 2013 - 3 December 2014	4 December 2014 - 3 December 2023	159,000
4 December 2013	4 December 2013 - 3 December 2015	4 December 2015 - 3 December 2023	238,500
4 December 2013	4 December 2013 - 3 December 2016	4 December 2016 - 3 December 2023	477,000
			874,500

Batch 9:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
25 April 2014	25 April 2014 - 31 December 2016	1 January 2017 - 24 April 2024	139,000
25 April 2014	25 April 2014 - 31 December 2017	1 January 2018 - 24 April 2024	139,000
			278,000

Batch 10:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
11 May 2015	11 May 2015 - 6 October 2015	7 October 2015 - 10 May 2025	1,400
11 May 2015	11 May 2015 - 6 October 2016	7 October 2016 - 10 May 2025	32,100
11 May 2015	11 May 2015 - 6 October 2017	7 October 2017 - 10 May 2025	42,800
11 May 2015	11 May 2015 - 6 October 2018	7 October 2018 - 10 May 2025	53,500
11 May 2015	11 May 2015 - 6 October 2019	7 October 2019 - 10 May 2025	64,200
			194,000

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

(i) Equity-settled share option scheme (Cont'd)

Batch 11:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2017
31 March 2017	31 March 2017 - 30 March 2018	31 March 2018 - 30 March 2027	75,000
31 March 2017	31 March 2017 - 30 March 2019	31 March 2019 - 30 March 2027	75,000
31 March 2017	31 March 2017 - 30 March 2020	31 March 2020 - 30 March 2027	150,000
			300,000

The following table discloses the movement of the share options during the year ended 31 December 2017:

Option batch	Exercise price HKD	Outstanding at 1 January 2017	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31 December 2017
Batch 1	4.33	1,400,000	–	(1,400,000)	–	–
Batch 2	4.80	497,452	–	(138,085)	–	359,367
Batch 3	4.60	342,950	–	(334,950)	–	8,000
Batch 4	5.74	774,294	–	(298,577)	–	475,717
Batch 5	6.53	246,326	–	(182,126)	(64,200)	–
Batch 6	7.20	50,250	–	–	–	50,250
Batch 7	11.16	370,250	–	(79,775)	(13,200)	277,275
Batch 8	15.72	874,500	–	–	–	874,500
Batch 9	14.66	278,000	–	–	–	278,000
Batch 10	27.75	214,000	–	(20,000)	–	194,000
Batch 11	23.65	–	300,000	–	–	300,000
		5,048,022	300,000	(2,453,513)	(77,400)	2,817,109
Exercisable at the end of the year 2017						2,111,759
Weighted average exercise price		HKD8.78				HKD13.58

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

(i) Equity-settled share option scheme (Cont'd)

The following table discloses the movement of the share options during the year ended 31 December 2016:

Option batch	Exercise price HKD	Outstanding at 1 January 2016	Exercised during year	Forfeited during year	Outstanding at 31 December 2016
Batch 1	4.33	1,400,000	–	–	1,400,000
Batch 2	4.80	2,840,729	(2,129,700)	(213,577)	497,452
Batch 3	4.60	855,175	(512,225)	–	342,950
Batch 4	5.74	1,062,862	(257,750)	(30,818)	774,294
Batch 5	6.53	363,238	(113,762)	(3,150)	246,326
Batch 6	7.20	50,250	–	–	50,250
Batch 7	11.16	426,950	(56,700)	–	370,250
Batch 8	15.72	874,500	–	–	874,500
Batch 9	14.66	556,000	(278,000)	–	278,000
Batch 10	27.75	214,000	–	–	214,000
		8,643,704	(3,348,137)	(247,545)	5,048,022
Exercisable at the end of the year 2016					3,747,672
Weighted average exercise price		HKD7.53			HKD8.78

The fair value of the options granted on 31 March 2017 was approximately RMB3,603,000. The fair value was calculated using the Binomial option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD23.65
Exercise price	HKD23.65
Risk-free interest rate	1.587%
Expected volatility	56.734%
Expected dividend yield	0.846%

Expected volatility was determined by reference to the annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price.

The Group recognised the total expense of approximately RMB2,209,000 for the year ended 31 December 2017 (2016: RMB2,352,000) in relation to share options granted by the Company.

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

(i) Equity-settled share option scheme (Cont'd)

Upon the disposal of 91 Group, few participants of 91 Group under the Scheme are no longer the staff of the Group. The share options of these participants shall not lapse on the date of the disposal and shall continue to have effect under the Scheme. The Group recognised the total expense of approximately RMB29,000 for the year ended 31 December 2017 (2016: RMB110,000) in relation to these share options granted.

(ii) Share award scheme by the Company

Pursuant to a circular to shareholders of the Company dated 3 September 2008, the Company introduced a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The rationale of the Share Award Scheme is to recognise the contributions by certain employees and to provide incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The selected employee are not required to pay for the grant of the Award or for the shares allotted or allocated pursuant to the Award.

The aggregate number of the Award is not permitted to exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The eligibility of employees to participate in the Share Award Scheme and number of shares which are the subject of each Award at each date of grant to a selected employee in accordance with the Share Award Scheme shall be determined at the absolute discretion of the committee, which comprised the directors of the Company duly appointed by the board of directors to administer the Share Award Scheme (the "Committee"), which shall take into consideration various factors including the general financial condition of the Group, the rank and performance of the relevant employee and such other general criteria as the Committee may consider appropriate as well as other limitations set forth under the Rules Governing the Listing of Securities on the Stock Exchange and those rules of the Share Award Scheme.

In determining the number of shares to be awarded each year, the Committee shall have reference to the financial performance of the Group as reflected in the profit before taxation of the financial year.

The grant of the Award to the selected employee shall be accepted by the selected employee within 28 days from the date of offer. The selected employee may accept or refuse the whole but not part of a grant of the Award. If the grant of the Award is not accepted by the selected employee within 28 days from the date of offer, the offer shall upon the expiry of the 28 days period automatically lapse and shall be null and void.

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

(ii) Share award scheme by the Company (Cont'd)

Performance conditions (the "Performance Conditions") refers to the condition or conditions imposed by the Company on the selected employee's employment with the Company which must be fulfilled or satisfied by the selected employee prior to his eligibility for the Award. Performance period refers to the period of a participant employment with the Group which is used to assess the selected employee's work performance for the purpose of determining the grant of the selected employee's award.

The current Performance Conditions proposed by the Committee is that shares will only be vested to the employees after rendering services for certain period. Each employee needs to render the agreed period of service in order to be entitled to the shares granted.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB2,776,000 for the year ended 31 December 2017 (2016: approximately RMB1,558,000) in relation to share awards.

Movements in the share awards granted during the year ended 31 December 2017 are as follows:

Name of category of participant	Date of grant	Outstanding at 1 January 2017	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2017
Directors	31 December 2012	118,212	–	(118,212)	–	–
Other employees	21 January 2016	109,586	–	(38,334)	(1,302)	69,950
Director	31 March 2017	–	100,000	(100,000)	–	–
		227,798	100,000	(256,546)	(1,302)	69,950

Among the Award granted on 31 December 2012, 118,212 share awards were vested and released for the year ended 31 December 2017 (2016: 118,212 share awards). No share awards were forfeited for the year ended 31 December 2017 (2016: 239,027 share awards). No share awards were outstanding as at 31 December 2017 (2016: 118,212 share awards).

Among the Award granted on 21 January 2016, 30,014, 336, 336 and 38,334 share awards were vested on 9 September 2016, 14 October 2016, 25 November 2016 and 9 September 2017, respectively, 630 and 69,320 share awards will be vested on 20 January 2018 and 1 September 2018, respectively. 1,302 share awards were forfeited during the year ended 31 December 2017.

Among the Award granted on 20 May 2016, 100,000 share awards were granted and vested for the year ended 31 December 2016.

Among the Award granted on 31 March 2017, 100,000 share awards were granted and vested during the year ended 31 December 2017.

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

(iii) Share awarded by a subsidiary of the Company

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

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

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

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

Best Assistant has granted 80,000 share awards to a selected participant and 16,000 share awards were vested and released for the year ended 31 December 2017. The number of share awards outstanding at 31 December 2017 was 64,000.

Fair value of the share award 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 Group recognised the total expenses of approximately RMB21,000 for the year ended 31 December 2017 (2016: Nil) in relation to the share awards.

43. ACQUISITION OF SUBSIDIARIES

Acquisition of Jumpstart Group

On 8 June 2017, Digital Train Limited ("Digital Train"), an indirect non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with an independent third party (the "Seller"), pursuant to which the Seller conditionally agreed to sell and Digital Train conditionally agreed to acquire 100% equity interests of Jumpstart Group. The aggregate purchase price is the sum of the initial consideration of USD7,574,478 plus the contingent purchase price up to (but not in excess of) USD20,000,000. The completion of the Sale and Purchase Agreement took place on 1 July 2017. Jumpstart Group is engaged in developing, publishing and distributing multimedia educational gaming software and online content for use in schools, and homes and on mobile devices. Jumpstart Group was acquired so as to continue the expansion of the Group's education segment.

Consideration transferred

	RMB'000
Cash	3,388
Promissory note	47,946
Total	51,334

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43. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Jumpstart Group (Cont'd)

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

	RMB'000
Non-current assets	
Property, plant and equipment	97
Intangible assets	24,674
Current assets	
Trade receivables	5,838
Other receivables, prepayments and deposits	19,593
Bank balances and cash	1,023
Current liabilities	
Trade payables	(19,619)
Other payables and accruals	(13,227)
Tax payable	(393)
Non-current liability	
Deferred tax liabilities	(13,591)
Net assets acquired	4,395

The fair values of trade receivables and other receivables are RMB5,838,000 and RMB403,000 respectively, which are also the gross contractual amounts of these receivables acquired. The best estimate at acquisition date of the contractual cash flows expected to be collected are the then entire outstanding amounts.

Goodwill arising on acquisition of Jumpstart Group

	RMB'000
Consideration transferred	51,334
Less: Fair value of identifiable net assets acquired	(4,395)
Goodwill arising on acquisition	46,939

43. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Jumpstart Group (Cont'd)

Goodwill arose on the acquisition of Jumpstart Group because the acquisition included the assembled workforce of Jumpstart Group and some potential contracts which are still under negotiation with prospective new customers as at the date of acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

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

Net cash outflow on acquisition of Jumpstart Group

	RMB'000
Consideration paid in cash	3,388
Less: Cash and cash equivalent balances acquired	(1,023)
	2,365

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2017 was the loss of approximately RMB18,675,000 attributable to the additional business generated by Jumpstart Group. Revenue for the year ended 31 December 2017 attributable to the additional business generated by Jumpstart Group approximated RMB28,478,000.

Had the acquisition been completed on 1 January 2017, total group revenue for the year ended 31 December 2017 would have been RMB3,892 million, and loss for the year ended 31 December 2017 would have been RMB106 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.

43. 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")

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:

	RMB'000
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	(2,804)

Goodwill arising on acquisition of 北京就是迷

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

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

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43. 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)

Net cash outflow on acquisition of 北京就是迷

	RMB'000
Consideration paid in cash	460
Less: Cash and cash equivalent balances acquired	(1)
	459

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was the loss of approximately RMB805,000 attributable to the additional business generated by 北京就是迷. Revenue for the year ended 31 December 2016 approximated RMB2,778,000.

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been RMB2,793 million, and loss for the year ended 31 December 2016 would have been RMB237 million. The directors of the Company 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.

43. ACQUISITION OF SUBSIDIARIES (Cont'd)

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:

	RMB'000
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	381

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43. 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)

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.

Goodwill arising on acquisition of 廈門易用

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

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

	RMB'000
Consideration paid in cash	88
Less: Cash and cash equivalent balances acquired	(388)
	(300)

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was the loss of approximately RMB205,000 attributable to the additional business generated by 廈門易用 . Revenue for the year ended 31 December 2016 included RMB94,000 generated from 廈門易用 .

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been RMB2,793 million, and loss for the year ended 31 December 2016 would have been RMB237 million. The directors of the Company 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.

43. 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 AR and computer vision with machine learning technology.

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

	RMB'000
Non-current assets	
Property, plant and equipment	542
Intangible asset	8,209
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 liability	(1,355)
Net assets acquired	5,486

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43. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Cherrypicks Alpha Resources (Cont'd)

Goodwill arising on acquisition of Cherrypicks Alpha Resources

	RMB'000
Consideration transferred	20,876
Less: Fair value of identifiable net assets acquired	(5,486)
Goodwill arising on acquisition	15,390

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)
	(222)

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was the loss of approximately RMB4,048,000 attributable to the additional business generated by Cherrypicks Alpha Resources. Revenue for the year ended 31 December 2016 approximated RMB309,000.

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been RMB2,795 million, and loss for the year ended 31 December 2016 would have been RMB229 million. The directors of the Company 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.

43. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of 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 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.

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

	RMB'000
Non-current assets	
Property, plant and equipment	179
Intangible asset	9,220
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 liability	(1,521)
Net assets acquired	997

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43. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Cherrypicks Alpha Group (Cont'd)

Goodwill arising on acquisition of Cherrypicks Alpha Group

	RMB'000
Consideration transferred	15,622
Less: Fair value of identifiable net assets acquired	(997)
Goodwill arising on acquisition	14,625

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

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

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2016 was the loss of approximately RMB1,453,000 attributable to the additional business generated by Cherrypicks Alpha Group. No revenue from Cherrypicks Alpha Group was generated for the year ended 31 December 2016.

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been RMB2,794 million, and loss for the year ended 31 December 2016 would have been RMB239 million. The directors of the Company 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.

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44. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
Non-current asset		
Investments in subsidiaries	**167,871**	167,871
Current assets		
Other receivables and prepayment	**15,529**	9,866
Amounts due from subsidiaries	**1,401,978**	959,277
Bank balances	**446,036**	43,058
	1,863,543	1,012,201
Current liabilities		
Other payables	**31,907**	34,375
Amounts due to subsidiaries	**3,605**	57,614
	35,512	91,989
Net current assets	**1,828,031**	920,212
Net assets	**1,995,902**	1,088,083
Capital and reserves		
Share capital	**39,094**	36,571
Share premium and reserves	**1,956,808**	1,051,512
	1,995,902	1,088,083

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44. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Movement in the Company's reserves:

	2017 **RMB'000**	2016 RMB'000
1 January	**1,051,512**	1,070,780
Issue of new shares	**818,366**	–
Repurchase and cancellation of shares	**(48,946)**	(101,220)
Profit for the year	**207,534**	124,910
Recognition of equity-settled share-based payments	**5,014**	4,020
Share issued upon exercise of share options	**10,923**	16,300
Share issued upon acquisition of subsidiaries	**–**	20,805
Dividends	**(87,595)**	(84,083)
31 December	**1,956,808**	1,051,512

45. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. The Group will balance its overall capital structure through the payment of dividends as well as issue new shares or return capital to owners.

46. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	2,239,019	1,373,908
Held-for-trading investment	–	151,783
Available-for-sale investments	10,859	17,883
Financial liabilities		
Amortised cost	877,562	539,696
Convertible preferred shares	95,249	104,101

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investment, amount due from a related company, amounts due from associates, amount due from a joint venture, loan receivables, trade receivables, other receivables, restricted bank deposit, restricted bank balances, pledged bank deposits, bank deposits, bank balances and cash, trade and other payables, amount due to a related company, amounts due to associates, secured bank borrowings, promissory note and convertible preferred shares. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

46. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk

(i) *Currency risk*

The Group operates mainly in the PRC, the USA and the UK. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB, USD and GBP. However, the Group also has operations in Hong Kong, Australia and Europe and the business transactions conducted there during the year were mainly denominated and settled in HKD, AUD and EURO respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner.

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities (including loan receivables, trade receivables, other receivables, restricted bank deposit, restricted bank balances, pledged bank deposits, bank balances and cash, trade and other payables, promissory note and secured bank borrowings) at the end of the reporting period are as follows:

	Assets		Liabilities	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**403,477**	34,240	**4,017**	6,743
USD	**617,471**	629,159	**351,567**	105,421
GBP	**151**	712	**4,519**	4,380
AUD	**806**	3,465	**65**	–
EURO	**55,844**	2,227	**2,178**	–

46. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD, USD, GBP, AUD or EURO. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates a decrease/(an increase) in post-tax loss where RMB strengthen 5% against relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax loss.

	2017	2016
	RMB'000	RMB'000
Post-tax loss		
HKD	**(14,980)**	(1,031)
USD	**(9,971)**	(19,640)
GBP	**164**	138
AUD	**(28)**	(130)
EURO	**(2,012)**	(84)

A 5% increase and decrease in RMB against HKD, USD, GBP, AUD or EURO do not have a material impact on the other comprehensive income of the Group.

46. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(ii) Interest rate risk

The interest income is derived from the Group's bank deposits that carry interest at the respective banking deposit rate of the banks located in the PRC and Hong Kong and loan receivables.

The Group is exposed to fair value interest rate risk in relation to fixed or floating-rate loan receivables (Note 20), pledged bank deposits (Note 32), promissory note (Note 39) and secured bank borrowings (Note 38). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The cash flow interest rate risk relates primarily to the Group's pledged bank deposits (Note 32) carried at prevailing banking deposit rates. The Group's pledged bank deposits are short-term in nature and the exposure of the interest rate risk for bank deposits are considered minimal. It is the Group's policy to keep its borrowings at floating-rate of interest so as to minimize the fair value interest rate risk. The cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2016: 50 basis points) increase or decrease in LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2017 would increase/decrease by RMB543,000 (2016: RMB109,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

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46. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturity for its non-derivative and derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating-rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

46. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

In addition, the following table details the Group's liquidity analysis for its derivative financial instrument. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settles on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instrument is prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivative.

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2017					
Trade and other payables	**–**	**594,224**	**2,693**	**596,917**	**596,917**
Amount due to a related company	**–**	**1,400**	**–**	**1,400**	**1,400**
Amounts due to associates	**–**	**305**	**–**	**305**	**305**
Promissory note	**4.61**	**47,282**	**–**	**47,282**	**46,226**
Secured bank borrowings	**3.49**	**147,209**	**99,189**	**246,398**	**232,714**
Convertible preferred shares	**24.10**	**–**	**118,204**	**118,204**	**95,249**
		790,420	**220,086**	**1,010,506**	**972,811**

	Weighted average interest rate %	On demand or less than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2016					
Trade and other payables	–	499,578	5,582	505,160	505,160
Amount due to a related company	–	978	–	978	978
Amounts due to associates	–	4,558	–	4,558	4,558
Secured bank borrowings	3.27	29,948	–	29,948	29,000
Convertible preferred shares	24.77	–	129,887	129,887	104,101
		535,062	135,469	670,531	643,797

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46. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Fair value

The fair value of financial assets and financial liability (including a derivative financial instrument) is determined in accordance with generally accepted pricing models based on a discounted cash flow analysis or using prices or rates from observable current market transactions as input.

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

Financial assets/ financial liability	Fair value as at 31 December 2017 RMB'000	Fair value as at 31 December 2016 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Held-for-trading investment classified as financial asset	–	151,783	Level 1	Quoted bid prices in an active market.	N/A	N/A
Certain available-for-sale investment	5,859	12,883	Level 1	Quoted bid prices in an active market.	N/A	N/A
Convertible preferred shares	95,249	104,101	Level 3	Discounted cash flow using key input as follows: present worth of future economic benefits and discount rate that reflected credit risk of the Group.	Discount rate that reflected the expected rate of return that an investor would have to give up by investing in the subject investment.	The higher the discount rate, the lower the fair value.
					Subsidiary's share price estimated based on the expected revenue growth and profitability of the subsidiary.	The higher the subsidiary's share price, the higher the fair value.

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

47. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amounts of the assets pledged by the Group to secure the bank borrowings granted to the Group and to issue credit card facility as set out in Notes 38 and 32 are as follows:

	2017	2016
	RMB'000	RMB'000
Prepaid lease payment	**29,262**	–
Property, plant and equipment	**–**	27,519
Security deposits (included in other receivables, prepayments and deposits)	**1,097**	–
Bank deposits	**145,084**	411
	175,443	27,930

48. RETIREMENT BENEFITS PLANS

Defined contribution plan

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or HKD1,500 per person per month to the scheme, whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2017 made by the Group amounted to approximately RMB131,468,000 (2016: RMB105,956,000).

49. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by the Ultimate Controlling Shareholders, Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, who have entered into agreement to collectively govern the financial and operating policies of the Company and various subsidiaries.

The Group had the following significant related party transactions and balances during the year with certain companies in which some directors and shareholders of the Company can exercise significant influence or control.

Nature of transactions	**2017 RMB'000**	2016 RMB'000
Rentals charged by Fuzhou 851	**6,924**	7,097
Service fee at recreation centre paid to Fuzhou 851	**7,000**	7,000
After-sales service fee paid to Fuzhou Tianliang	**9,346**	7,376
Technical service fee paid to Fuzhou Tianliang	**2,003**	1,581
Goods purchased from 福建創思教育	**6,383**	11,892
Goods purchased from 福建一零一教育	**9**	4,373
Goods sold to 福建創思教育	**–**	(17)
Goods sold to 福建一零一教育	**(2,867)**	(11,874)
Interest receivable/received on loan advanced to key management	**(243)**	(101)
Property purchased from key management	**9,213**	–

Included in loan receivables as at 31 December 2017 was loan advanced to key management of approximately RMB5,359,000 (2016: RMB3,469,000), in which an amount of RMB3,267,000 is non-trade in nature, secured by shares, repayable on 31 August 2019 and carries interest of 5% per annum and the remaining amounts are non-trade nature, unsecured, repayable on monthly instalment or on 30 April 2022 and carries interest rate of 4.75% or 4.90%.

49. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

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

	2017 **RMB'000**	2016 RMB'000
Salaries, allowances and other short-term employee benefits	**24,873**	16,019
Contribution to retirement benefits schemes	**467**	282
Share-based payments expense	**2,868**	2,907
	28,208	19,208

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

50. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments contracted for but not provided in the consolidated financial statements:

	2017 **RMB'000**	2016 RMB'000
Capital expenditure in respect of capital injection in a joint venture	**582,000**	–
Capital expenditure in respect of the acquisition of property, plant and equipment	**542,636**	152,960
Capital expenditure in respect of properties under development	**35,743**	104,253
	1,160,379	257,213

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51. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of certain of its office premises under non-cancellable operating leases which fall due as follows:

	2017	2016
	RMB'000	RMB'000
Within one year	**67,693**	62,648
In the second to fifth years inclusive	**95,937**	81,861
Over five years	**5,918**	6,791
	169,548	151,300

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 5 years for office premises. Rentals are fixed over the respective leases.

The Group as lessor

Property rental income earned during the year was approximately RMB6,803,000 (2016: RMB6,570,000). The property is expected to generate rental yields of 10.5% (2016: 11.3%) on an ongoing basis. The property held has committed tenants for the next 0.75 to 1.5 years.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2017	2016
	RMB'000	RMB'000
Within one year	**5,442**	3,442
In the second to fifth years inclusive	**2,792**	560
	8,234	4,002

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52. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Secured bank borrowings RMB'000	Dividend payables RMB'000	Total RMB'000
At 1 January 2017	29,000	–	29,000
Financing cash flows	207,026	(87,595)	119,431
Non-cash changes:			
Foreign exchange translation	(4,761)	–	(4,761)
Dividend declared	–	87,595	87,595
Interest expense	1,449	–	1,449
At 31 December 2017	232,714	–	232,714

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53. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/ registered capital	Proportion of registered capital/ issued share capital/equity interests and voting power held by the Company directly		indirectly		Principal activities
			2017 %	2016 %	2017 %	2016 %	
NetDragon BVI	BVI	USD222,203.93	100	100	–	–	Investment holding
NetDragon (Fujian) *	PRC	RMB10,100,000.00	–	–	–	–	Operation of online games
TQ Digital #	PRC	RMB545,000,000.00	–	–	100	100	Development of online games and licensing and servicing of the developed games
NetDragon Websoft Inc.	USA	USD600,000.00	–	–	100	100	Provision of support services to the Group
NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司)	Hong Kong	HKD1.00	–	–	100	100	Licensing and servicing of the developed games and provision for support services to the Group
Glory More Limited (展凱有限公司)	Hong Kong	HKD1.00	–	–	100	100	Investment holding
TQ Online #	PRC	RMB555,000,000.00	–	–	100	100	Development of online games and licensing and servicing of developed games
福州網龍天像科技有限公司 #^ (Fuzhou NetDragon TianXiang Technology Inc.)	PRC	RMB50,000,000.00	–	–	N/A	100	Investment holding
Cherrypicks Limited (創奇思有限公司)	Hong Kong	HKD150,000.00	–	–	92.2	92.2	Mobile solution, products and marketing business
Cherrypicks Alpha Resources (創奇思科研有限公司)	Hong Kong	HKD10,000.00	–	–	100	100	Development and provision of products in AR and computer vision with machine learning technology
Best Assistant	Cayman Islands	USD1,304,165.24	–	–	87.44	87.39	Investment holding

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53. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/ registered capital	Proportion of registered capital/ issued share capital/equity interests and voting power held by the Company directly		indirectly		Principal activities
			2017	2016	**2017**	2016	
			%	%	**%**	%	
Fujian Tianquan Education Technology Limited # (福建天泉教育科技有限公司) ("Fujian Tianquan")	PRC	RMB250,000,000.00	**–**	–	**87.44**	87.39	Operation and development of online education business
Fujian Huayu *	PRC	RMB200,000,000.00	**–**	–	**–**	–	Operation and development of online education business
Promethean World Limited	UK	GBP20,320,000.00	**–**	–	**87.44**	87.39	Sale of education hardware and software products

* The Group's control over, and beneficial interest in the equity of, these entities exist by virtue of certain contractual arrangements entered into with the Ultimate Controlling Shareholders involving these entities, which are established as limited liability companies under PRC law. The Group does not hold ownership interest in the registered capital of these subsidiaries. However, under the contractual agreements entered into among the entities, the Ultimate Controlling Shareholders who are the owners of the registered capital of these entities and the Group, the Group controls these entities by way of controlling all voting rights in owners' meetings of these entities and governing their financial and operating policies. Under the contractual arrangements, management committees are established to oversee the businesses and operations of these entities in order to ensure and facilitate the implementation of the contractual arrangements. The management committees shall comprise members, all of whom have to be directors of TQ Digital and Fujian Tianquan, subsidiaries of the Company, in order that the decision-making rights and the operating and financing activities of these entities are ultimately controlled by the Company. The Company is also entitled to substantially all of the operating profits and residual benefits by charging service fee equal to net profit generated by these entities under the contractual arrangements. In addition, the owners of the registered capital of these entities have irrecoverably authorised TQ Digital and Fujian Tianquan to exercise all their voting rights in NetDragon (Fujian) and Fujian Huayu, including the appointment and removal of the directors of these entities. As a result, these entities are regarded as subsidiaries under the control of the Group. Accordingly, the results of these entities, if any, and their assets and liabilities are included in the consolidated financial statements.

Wholly foreign owned enterprise.

^ It was deregistered during the year ended 31 December 2017.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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53. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong, the UK, the USA and the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2017	2016
Investment holding	Hong Kong	**20**	20
Investment holding	UK	**2**	2
Investment holding	the PRC	**1**	—
Operation of games	the PRC	**1**	—
Provision of support to the Group	the PRC	**12**	14
Provision of support to the Group	Hong Kong	**1**	1
Provision of mobile solution, products and marketing business to the Group	Hong Kong	**18**	18
Provision of mobile solution, products and marketing business to the Group	the PRC	**2**	2
Provision of mobile solution, products and marketing business to the Group	Indonesia	**1**	1
Provision of education business to the Group	the PRC	**11**	9
Provision of education business to the Group	Thailand	**1**	1
Provision of education business to the Group	Macau	**1**	—
Sale of education hardware and software products	UK	**2**	2
Sale of education hardware and software products	USA	**2**	2
Sale of education hardware and software products	Germany	**1**	1
Sale of education hardware and software products	France	**1**	1
Sale of education hardware and software products	the PRC	**1**	1
Sale of education hardware and software products	India	**1**	—
Provision of AR and virtual reality services	Hong Kong	**1**	1
Developing, publishing and distributing multimedia educational gaming software and online content	USA	**3**	—
Developing, publishing and distributing multimedia educational gaming software and online content	India	**1**	—
		84	76