# 2018 INTERIM REPORT

網龍網絡控股有限公司

NETDRAGON WEBSOFT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 777

# CONTENTS

# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) FINANCIAL HIGHLIGHTS AND REVIEW

2018 First Half Financial Highlights

- Revenue was RMB2,469.9 million, representing a 39.1% increase year-over-year.
- Revenue from the games business was RMB1,039.3 million, representing 42.1% of the Group's total revenue, registered a 29.5% increase year-over-year.
- Revenue from the education business was RMB1,384.1 million, representing 56.0% of the Group's total revenue, registered a 48.2% increase year-over-year.
- Gross profit was RMB1,402.1 million, representing a 35.7% increase year-over-year.
- Core segmental profit[1] from the games business was RMB524.4 million, representing a 56.9% increase year-over-year.
- Core segmental loss[1] from the education business was RMB158.7 million, representing a 16.2% decrease year-over-year.
- Non-GAAP operating profit[2] was RMB249.3 million, representing over 4 times increase year-over-year.
- Profit attributable to owners of the Company was RMB200.7 million, representing over 6 times increase year-over-year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) FINANCIAL HIGHLIGHTS AND REVIEW (Cont'd)

Segmental Financial Highlights

| | FY2018 1H | | FY2017 1H | |
|---|---|---|---|---|
| **(RMB'000)** | **Gaming** | **Education** | Gaming | Education |
| Revenue | **1,039,346** | **1,384,074** | 802,405 | 934,077 |
| Gross profit | **978,499** | **421,499** | 755,173 | 273,172 |
| Gross margin | **94.1%** | **30.5%** | 94.1% | 29.2% |
| Core segmental profit (loss)[1] | **524,376** | **(158,650)** | 334,110 | (189,224) |
| Segmental operating expenses[3] | | | | |
| – Research and development | **(222,443)** | **(214,525)** | (203,160) | (183,791) |
| – Selling and marketing | **(102,609)** | **(224,161)** | (97,118) | (192,051) |
| – Administrative | **(143,806)** | **(113,000)** | (133,909) | (68,802) |

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 measure is provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP operating profit 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 of the Group excludes share-based payments expense and amortisation of intangible assets arising on acquisition of subsidiaries.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is excited that it delivered an excellent first half in 2018. Revenue reached another semi-annual record-high at RMB2,469.9 million with 39.1% year-over-year growth, while profit attributable to shareholders surged by more than six times to RMB200.7 million from RMB25.8 million in the first half of 2017. These remarkable numbers were underpinned by the strong execution in both gaming and education segments.

The gaming business maintained its solid growth momentum in the first half of 2018. Mobile games were a major growth driver, with revenue increasing 53.4% year-over-year. PC games also performed well with 25.0% year-over-year growth. It is the strategy of the Company to maximize IP values continued to bear fruit in the first half of 2018. The Group also made great progress in development of the new games as the current pipeline remains very strong. As the Group continues to execute the strategy to maximize IP values, the Group is also looking to accelerate the growth further by expanding the IP portfolio, both organically and by working with the partners.

The Group is also excited by the tremendous growth of the education business. In overseas, the interactive classroom product offerings continued to expand their penetration rapidly in both developed and emerging countries. As a result, the subsidiary Promethean continued to grow its revenue at a rate faster than the market, and in doing so has maintained its global market leader position in K-12 interactive classroom technologies in the first half of 2018. The Group is also pleased to complete the acquisition of Edmodo, Inc. ("Edmodo") in May 2018. With Edmodo joining the family, the Company is in a unique position to offer a complete product portfolio that covers pre-class, in-class and after-class learning environments anywhere and at anytime. More importantly, the online community has accumulated more than 90 million of registered users, laying solid foundations for future monetization.

In China, revenue rose by 35.4% year-over-year to RMB105.6 million as the Group continued to drive increasing adoption of the software platforms. On the user front, the installed base of the flagship platform 101 Education PPT in China exceeded 2.3 million in June 2018, almost doubled from over 1.2 million at the end of 2017, with coverage of 31 provinces across China.

## (2) BUSINESS REVIEW AND OUTLOOK (Cont'd)

### Gaming Business

The gaming business revenue grew by 29.5% year-over-year to a record-high RMB1,039.3 million in the first half of 2018. Mobile game continued to perform very well with 53.4% year-over-year growth. PC games also remained robust with 25.0% year-over-year revenue growth. With strong top line growth, gaming's core segmental profit jumped by 56.9% year-over-year.

The flagship IP Eudemons (魔域) was a significant contributor to the growth in the first half of 2018 with 37.8% year-over-year increase in revenue. In particular, its PC version recorded monthly gross billings over RMB100 million in five out of six months during the first half of 2018 while the newly launched mobile version continued to be well-received.

Heroes Evolved (英魂之刃), another flagship IP, saw revenue of its pocket version more than double in the first half year-over-year as the Group stepped up the monetization initiative. Since launch in December 2016, the 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 drive revenue and profits growth by maximizing its IP values with new games and new game-play features, as well as expanding its IP portfolio. In particular, the Group is in discussion to license external IP to augment its own IP portfolio. In pipeline, on the other hand, remains robust, and it is expected to launch multiple new games with different genres in the second half of 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) BUSINESS REVIEW AND OUTLOOK (Cont'd)

### Education Business

For the first half of 2018, revenue from the education business was RMB1,384.1 million, up 48.2% year-over-year. Revenue of RMB1,278.5 million and RMB105.6 million in overseas and China were recorded respectively, up 49.3% and 35.4% year-over-year. Core segmental loss declined by 16.2% year-over-year.

During the first half of 2018, the Group continued to excel in emerging markets. The Group not only materialized the sizable second phase tender in the City of Moscow, but also laid the foundation for entering the huge African market by gaining new footprints in countries like Egypt and Nigeria. In developed markets, the Group sustained its growth momentum in various major countries, including the U.S., the UK, Germany and France. As such, the Group's number one international market share leadership position in K-12 interactive technologies was solidified as it continued to gain market share across regions. Underpinned by the solid performance, Promethean's operating profit surged by more than ten times year-to-year to RMB114.4 million in the first half of 2018 as a result of the ongoing effort to drive revenue growth and rationalize costs aggressively.

The Group has also made tremendous progress in building the learning community with the acquisition of Edmodo which was completed in the first half of 2018. To date, the total users of Edmodo have exceeded 90 million in over 400,000 schools in more than 190 countries. Combining Edmodo with Promethean's interactive learning technologies, the comprehensive product portfolio will support the full learning process, in and out of the classroom, including lesson preparation, lesson delivery, student collaboration, homework features, teacher-student-parent communications, education content marketplace and resources sharing. By capturing all the major use cases in K-12 learning, the complete product offerings will be in a unique position to drive significant user traffic, with monetization opportunities to follow.

In China, revenue of RMB105.6 million was recorded in the first half of 2018, up 35.4% from the same period of 2017, as the Group continued to expand across different regions. As at 30 June 2018, China sales backlog, representing signed sales orders to be delivered to or validated by the customers, was RMB347.0 million.

The Group is pleased to see the continous traction in terms of user scaling. As at 30 June 2018, the Group had over 2.3 million installations for its flagship software platform 101 Education PPT in China, almost doubled from over 1.2 million as at the end of 2017. It has also leveraged the technologies in the space in AR, VR and AI to enhance user experience.

The Group's vision to revolutionize education with advanced technologies remains firm and clear. It possess the best-in-class learning products and technologies across the Group and in the near future, the strategy to integrate all these pieces will be vital to its success. In particular, the product portfolio enables users to prepare interesting courseware, deliver interactive lessons, streamline assignments, share and purchase resources, as well as communicate with one another using advanced technologies. Without question, the learning community with integrated functionalities is shaping the future of education.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) BUSINESS REVIEW AND OUTLOOK (Cont'd)

Project in Haixi Animation Creativity (the "Project")

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

Corporate Development Milestones and Awards for the First Half of 2018

| 2018 | Corporate Development Milestones/Recognitions |
|---|---|
| February | Fujian TQ Digital Inc. ("TQ Digital") was awarded "2017-2018 National Key Enterprise of Cultural Export"(2017-2018 年度國家文化出口重點企業) by the Ministry of Commerce of the PRC (中華人民共和國商務部), the Publicity Department of the Communist Party of China (中國共產黨中央委員會宣傳部), the Ministry of Finance of the People's Republic of China (中華人民共和國財政部), the Ministry of Culture of the People's Republic of China (中華人民共和國文化部), the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China (中華人民共和國國家新聞出版廣電總局). |
| April | TQ Digital was awarded the "The Strategic Partner of the First Digital China Summit"* 「首屆數字中國建設峰會戰略合作夥伴」 by The Organizing Committee of the First Digital China Summit (首屆數字中國建設峰會籌備組秘書處). |
| May | 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 "Excellent Enterprise of the Game Industry in China 2017"* 「中國遊戲行業2017年度優秀企業」 by Golden Thumb Award Adjudication (金手指獎評審委員會). |
| June | NetDragon (Fujian) was awarded the "Top 100 Enterprises with Comprehensive Competitiveness in Software and Information Technology Service of China 2018"* 「2018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). |

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2018, the Group had pledged bank deposits, restricted bank deposit, restricted bank balances and bank balances and cash of approximately RMB1,245.0 million (31 December 2017: RMB1,748.9 million).

As at 30 June 2018, the Group had net current assets of approximately RMB1,631.4 million as compared with approximately RMB1,658.8 million as at 31 December 2017.

## (4) GEARING RATIO

The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.08 (31 December 2017: 0.05). As at 30 June 2018, total bank borrowings of the Group amounted to approximately RMB371.9 million (31 December 2017: RMB232.7 million) in which an amount of RMB364.7 million (31 December 2017: RMB225.2 million) was floating-rate loans and the remaining balance was fixed-rate loans. The bank borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, corporate guarantee provided by the Company and corporate guarantee provided by subsidiaries.

## (5) CAPITAL STRUCTURE

As at 30 June 2018, the Group's total equity amounted to approximately RMB4,571.1 million (31 December 2017: RMB4,484.1 million).

## (6) FOREIGN CURRENCY RISKS

The Group operates mainly in the PRC, the United States of America and the United Kingdom. Most of its monetary assets, liabilities and transactions are principally denominated in the functional 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 period 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 its operational cash flows and the Group is not exposed to any significant foreign currency exchange risk in its operation.

## (7) CREDIT RISKS

As at 30 June 2018, 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 condensed 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.

## (8) 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.

## (9) STAFF INFORMATION

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

| | **At 30 June 2018** | At 31 December 2017 | At 30 June 2017 |
|---|---|---|---|
| Research and development | **3,475** | 3,836 | 3,494 |
| Selling and marketing | **1,296** | 1,384 | 1,361 |
| Accounting, finance and general administration | **956** | 948 | 860 |
| Production | **311** | 278 | 258 |
| Total | **6,038** | 6,446 | 5,973 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## (10) PERFORMANCE EVALUATION

### HUMAN RESOURCES

The Group had its overall staff headcount of 6,038 as at 30 June 2018.

In 2018, the Group applied artificial intelligence to enterprise management, using cloud office as a carrier to establish a fair, open and efficient organizational atmosphere while improving management efficiency. Artificial intelligence has gradually replaced human to deal with simple tasks with explicit standards in management, allowing human to commit more time in other more challenging jobs.

Apart from implementation of electronic management, the Group also introduced internationally advanced management concepts to enhance the management standards. Meanwhile, the Group cooperated with Ram Charan, the world-renowned management consultant guru, to specifically improve the competency model of NetDragon's core talents, optimize the Company's human resources from the five aspects of "selection, education, application, encouragement and elimination" to help the Company build a talent pool that can meet current and future business challenges.

On the other hand, the Company is also committed to talent upgrading. In the first half of 2018, the Group recruited a total of 352 new employees, mainly focusing on elite talents in the field of games and education to reserve quality talents for the subsequent strategy of the Company. In the second half of 2018, the Group will enter key national universities and hold campus recruitment activities to ensure that there are continuous high-quality talents injected into the Company.

Furthermore, the Group offered attractive package to retain valuable talents. The Group pays considerable attention to the health status of its employees. It will develop health-themed activities that meet the needs of employees, so as to strengthen employees' participation in and satisfaction of welfare and enhance their dedication in work.

## (11) STAFF TRAININGS

Description of NetDragon University

NetDragon University is a base for talent management and nurturing technological talents of the Group. NetDragon University is committed to providing professional and systematic training to its staff. In 2018, based on the tactical and business requirements of the Group, NetDragon University established a set of comprehensive indicators for external, internal and regular trainings.

Achievements for the first half of 2018

In line with the strategic development and key business of the Company, the Company continued to develop virtual reality training in the first half of the year, assisting the Company's business in education and other related projects in achieving annual objectives through virtual reality and augmented reality-related skills training, certification and education information-based trainings.

During the first half of 2018, NetDragon University organized a total of 159 training events with a total of 6,439 participants.

➢ *External trainings:*

Virtual reality training: External training activities in the first half of 2018 included summer study tours, ITE internship experience camps in Thailand and Singapore, and information-based teaching capacity improvement training courses in vocational colleges nationwide.

In the first half of the year, a total of 16 theme trainings were held, with a total of 1,143 participants.

➢ *Internal trainings:*

Concept application of Elernity's Education: application of the concept of Elernity's Education in the offline courses and 99U learning platform of NetDragon University.

Skill improvement trainings for key posts: Through Java certification projects, business sales certification, U3D program development intermediate certification, etc., to promote skills enhancement of key personnel for core businesses.

Management trainings: The Company conducted a series of training programs for competency of employees in the management grades to help them effectively manage their subordinates. In the first half of the year, the total number of participants in management trainings was 115.

➢ *Regular trainings:*

Regular trainings include new staff trainings, engineering school technical trainings, program center technical trainings, platform operation technical trainings, knowledge-based technical trainings and so on.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (12) CORPORATE CULTURE

### Innovation

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

### Customer comes first

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

### Learning

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

### Pursuit of excellence

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

### Passion

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

### Fairness

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

### Aggressiveness

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

## (13) INTERIM DIVIDEND

On 29 August 2018, the Board has resolved to declare an interim dividend of HKD0.10 per share for the six months ended 30 June 2018 (2017: HKD0.10 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 13 September 2018. It is expected that the interim dividend will be distributed on or before 19 October 2018.

## (14) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 13 September 2018 to Friday, 14 September 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2018, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 12 September 2018.

# OTHER INFORMATION

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

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

| **Name of Director** | **Name of Company** | **Capacity and nature of interests** | **Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)* | **Approximate percentage of shareholding** |
|---|---|---|---|---|
| Liu Dejian *(Note 2)* | The Company | Beneficial owner, through a controlled corporation and beneficiary of a trust | 255,822,457 (L) | 47.96% |
| Liu Dejian *(Note 3)* | NetDragon (Fujian) | Beneficial owner | RMB299,880,000 (L) | 99.96% |
| Leung Lim Kin, Simon *(Note 4)* | The Company | Beneficial owner | 1,363,530 (L) | 0.26% |
| Liu Luyuan *(Note 2)* | The Company | Beneficial owner and beneficiary of certain trust | 255,822,457 (L) | 47.96% |
| 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) | 47.96% |
| 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 | 1,060,519 (L) | 0.20% |
| Liu Sai Keung, Thomas *(Note 8)* | The Company | Beneficial owner | 975,019 (L) | 0.18% |

# OTHER INFORMATION

## 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 35.82% 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 5.29% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 26,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

   Zheng Hui is interested in 100.00% of the issued share capital of Fitter Property Inc., which in turn is interested in 3.57% of the issued voting shares of the Company. Zheng Hui is interested in 100.00% of the issued share capital 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 47.96% 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., 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 0.26% of the issued voting shares of the Company which is represented by beneficial interest of 1,363,530 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 and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.

6. Chao Guowei, Charles is interested in 0.17% 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 0.20% of the issued voting shares of the Company which is represented by personal interest of 642,519 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.

# OTHER INFORMATION

## 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 30 June 2018, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30 June 2018, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

| **Name of Shareholder** | **Name of Company** | **Capacity and nature of interests** | **Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)* | **Approximate percentage of shareholding** |
|---|---|---|---|---|
| DJM Holding Ltd. | The Company | Beneficial owner | 191,078,100 (L) | 35.82% |
| IDG Group *(Note 2)* | The Company | Beneficial owner | 78,333,320 (L) | 14.69% |
| Ho Chi Sing *(Note 2)* | The Company | Through controlled corporations | 78,333,320 (L) | 14.69% |
| Zhou Quan *(Note 2)* | The Company | Through controlled corporations | 73,490,095 (L) | 13.78% |
| First Elite Group Limited *(Note 3)* | The Company | Beneficial owner and through controlled corporation | 26,541,819 (L) | 4.98% |
| Jardine PTC Limited *(Note 3)* | The Company | Trustee | 26,541,819 (L) | 4.98% |

# OTHER INFORMATION

## 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 2.04%, 9.75%, 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 30 June 2018.

# OTHER INFORMATION

## SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the "Main Board Share Option Scheme") to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 30 June 2018 are as follows:

| Grantee | Date of grant | Exercise Price *HKD* | As at 1 January 2018 | Number of share options Granted | Exercised | Lapsed | As at 30 June 2018 |
|---|---|---|---|---|---|---|---|
| **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 | 359,367 | – | 13,000 | 1,500 | 344,867 |
| | 22.07.2011 | 4.60 | 8,000 | – | – | – | 8,000 |
| | 23.04.2012 | 5.74 | 175,717 | – | 25,300 | – | 150,417 |
| | 12.09.2012 | 7.20 | 50,250 | – | – | – | 50,250 |
| | 16.01.2013 | 11.164 | 277,275 | – | 17,100 | – | 260,175 |
| | 25.04.2014 | 14.66 | 278,000 | – | – | – | 278,000 |
| | 11.05.2015 | 27.75 | 194,000 | – | 60,000 | – | 134,000 |
| **Total** | | | 2,817,109 | – | 115,400 | 1,500 | 2,700,209 |

# OTHER INFORMATION

## SHARE AWARD SCHEME

### The Company

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

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

1,190,800 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company on 19 April 2018. 2,048,840 awarded shares granted to a number of selected participants were outstanding as at 30 June 2018. The awarded shares, which were purchased at an average price of HKD18.96 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

Among 518,100 vested awarded shares as at 30 June 2018, a total of 290,890 awarded shares were vested by the Director.

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

### Best Assistant Education Online Limited ("Best Assistant")

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

# OTHER INFORMATION

## SHARE AWARD SCHEME (Cont'd)

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 30 June 2018, 600,000 awarded shares were granted under the Best Assistant Share Award Scheme.

## ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into a subscription agreement ("Series A Agreement") with IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (together referred to as "IDG Investors"), Vertex Asia Fund Pte. Ltd. ("Vertex"), Alpha Animation and Culture (Hong Kong) Company Limited ("Alpha"), Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon Websoft Inc. ("NetDragon BVI"), a direct wholly owned subsidiary of the Company (collectively referred to as "Series A Investors") for the allotment and issue of an aggregate of 180,914,513 Series A preferred Shares ("Series A Preferred Shares") for a total consideration of USD52,500,000 (equivalent to approximately HKD409.5 million). The Series A Agreement and the issue and allotment of the Series A Preferred Shares were completed on 13 February 2015. The Series A Preferred Shares represented 100% of all issued preferred shares of Best Assistant and accounted for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares.

Assuming all of the Series A Preferred Shares are fully converted into ordinary shares of Best Assistant, the Company's interest in ordinary shares of Best Assistant will be reduced from 87.43% to approximately 79.10%.

As at 30 June 2018, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

## ACQUISITION OF EDMODO, INC. AND ISSUE OF SERIES B PREFERRED SHARES BY BEST ASSISTANT

On 6 April 2018, Best Assistant, Digital Train Limited ("Digital Train") as purchaser, a wholly-owned subsidiary of Best Assistant, Educate Merger Sub, Inc. ("Merger Sub"), a wholly-owned subsidiary of the purchaser, Edmodo, Inc. ("Edmodo"), Fortis Advisors LLC, in its capacity as representative of the shareholders of Edmodo, and the Company, solely with respect as guarantor for the timely performance of the obligations of Best Assistant and Digital Train, entered into an agreement and plan of merger (the "Agreement and Plan of Merger"), pursuant to which Digital Train will acquire Edmodo, for consideration in the form of cash and stock collectively valued in the amount of USD137,500,000, by way of merger under the laws of the State of Delaware.

Upon closing which took place on 2 May 2018, the Merger Sub merged with and into Edmodo, the separate corporate existence of Merger Sub ceased, and Edmodo shall continue its corporate existence as a wholly owned subsidiary of Digital Train in accordance with Delaware law.

The consideration (subject to downward adjustment as provided in the Agreement) shall be satisfied by (i) payment of an amount in cash equal to USD15,000,000 and (ii) the issue of 112,560,245 Best Assistant Series B Shares.

As at 30 June 2018, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

# OTHER INFORMATION

## MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2018.

## DISCLOSURE OF CHANGE OF INFORMATION OF DIRECTOR UNDER RULE13.51B(1) OF THE LISING 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 Asia Cassava Resources Holdings Limited on 13 May 2018.

## COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates (as defined under the Listing Rules) has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this announcement.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

# OTHER INFORMATION

## AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems, which include financial, operational and compliance controls and risk management functions.

The Audit Committee reviews the quarterly, interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continued connected transactions and connected transactions relating to structure contracts, other contracts and control documents of the Group.

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's interim results for the six months ended 30 June 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

# OTHER INFORMATION

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2018, the Company bought back a total of 115,000 shares on the Stock Exchange at an aggregate consideration of HKD2,081,440 before expenses.

Details of the shares buy-backs are as follows:

| Month of shares bought back | Number of ordinary shares bought back | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | *HKD* | *HKD* | *HKD* |
| January 2018 | 26,000 | 21.85 | 21.85 | 568,100 |
| June 2018 | 89,000 | 17.10 | 16.78 | 1,513,340 |

By Order of the Board
**NetDragon Websoft Holdings Limited**
**Liu Dejian**
*Chairman*

Hong Kong, 29 August 2018

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

**TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries set out on pages 27 to 82, which comprise the condensed consolidated statement of financial position as of 30 June 2018, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONCLUSION

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29 August 2018

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **(Unaudited)** | (Unaudited) |
| | *NOTES* | ***RMB'000*** | *RMB'000* |
| Revenue | 4 | **2,469,941** | 1,775,250 |
| Cost of revenue | | **(1,067,810)** | (741,971) |
| Gross profit | | **1,402,131** | 1,033,279 |
| Other income and gains | 4 | **39,817** | 37,525 |
| Impairment loss, net of reversal | | **(13)** | (96) |
| Selling and marketing expenses | | **(332,584)** | (292,490) |
| Administrative expenses | | **(409,546)** | (344,853) |
| Development costs | | **(442,233)** | (396,251) |
| Other expenses and losses | | **(45,430)** | (17,110) |
| Share of losses of associates | | **(265)** | (406) |
| Share of loss of a joint venture | | **(198)** | (53) |
| Operating profit | | **211,679** | 19,545 |
| Interest income on pledged bank deposits | | **1,755** | 706 |
| Exchange (loss) gain on secured bank borrowings and convertible preferred shares | | **(4,172)** | 1,879 |
| Net gain on convertible preferred shares | | **26,953** | 6,962 |
| Net loss on disposal of property held for sale | 24 | **(68)** | – |
| Net fair value gain on held-for-trading investment | | **–** | 58 |
| Finance costs | | **(5,358)** | (4,727) |
| Profit before taxation | | **230,789** | 24,423 |
| Taxation | 6 | **(53,047)** | (31,510) |
| Profit (loss) for the period | 7 | **177,742** | (7,087) |

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **(Unaudited)** | (Unaudited) |
| | *NOTE* | ***RMB'000*** | *RMB'000* |
| Other comprehensive (expense) income for the period, net of income tax: | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(3,109)** | 11,862 |
| Fair value loss on available-for-sale investment | | **–** | (7,940) |
| Item that will not be reclassified to profit or loss: | | | |
| Fair value loss on equity instrument at fair value through other comprehensive income | | **(232)** | – |
| Other comprehensive (expense) income for the period | | **(3,341)** | 3,922 |
| Total comprehensive income (expense) for the period | | **174,401** | (3,165) |
| Profit (loss) for the period attributable to: | | | |
| – Owners of the Company | | **200,740** | 25,777 |
| – Non-controlling interests | | **(22,998)** | (32,864) |
| | | **177,742** | (7,087) |
| Total comprehensive income (expense) attributable to: | | | |
| – Owners of the Company | | **198,055** | 27,496 |
| – Non-controlling interests | | **(23,654)** | (30,661) |
| | | **174,401** | (3,165) |
| | | ***RMB cents*** | *RMB cents* |
| **Earnings per share** | 9 | | |
| – Basic | | **37.63** | 5.20 |
| – Diluted | | **37.55** | 5.20 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

| | NOTES | 30 June 2018 (Unaudited) RMB'000 | 31 December 2017 (Audited) RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **1,552,420** | 1,373,026 |
| Prepaid lease payments | 11 | **359,902** | 515,299 |
| Investment properties | 12 | **74,361** | 64,532 |
| Intangible assets | 13 | **814,341** | 715,578 |
| Interests in associates | 14 | **15,696** | 15,961 |
| Interest in a joint venture | 15 | **17,235** | 17,433 |
| Available-for-sale investments | | **–** | 10,859 |
| Equity instruments at fair value through other comprehensive income | | **10,627** | – |
| Loan receivables | | **15,786** | 18,410 |
| Trade receivables | 17 | **–** | 3,912 |
| Pledged bank deposit | 23 | **8,555** | – |
| Restricted bank deposit | | **–** | 5,000 |
| Deposits made for acquisition of property, plant and equipment | | **10,546** | 7,441 |
| Goodwill | 18 | **453,063** | 388,675 |
| Deferred tax assets | | **4,108** | 4,160 |
| | | **3,336,640** | 3,140,286 |
| **Current assets** | | | |
| Properties under development | | **379,922** | 160,141 |
| Property held for sale | 24 | **–** | 9,213 |
| Inventories | 16 | **127,532** | 106,430 |
| Prepaid lease payments | 11 | **6,636** | 9,866 |
| Loan receivables | | **13,050** | 4,662 |
| Trade receivables | 17 | **945,816** | 380,072 |
| Amounts due from customers for contract work | | **–** | 16,522 |
| Other receivables, prepayments and deposits | 20 | **349,108** | 255,948 |
| Contract assets | 21 | **17,893** | – |
| Amounts due from related companies | 22 | **1,757** | 1,704 |
| Amounts due from associates | 22 | **1,953** | 5,264 |
| Amount due from a joint venture | | **356** | 159 |
| Tax recoverable | | **393** | 1,497 |
| Pledged bank deposits | 23 | **147,315** | 145,084 |
| Restricted bank balances | | **15,089** | 20,332 |
| Bank balances and cash | | **1,074,087** | 1,578,477 |
| | | **3,080,907** | 2,695,371 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

| | NOTES | 30 June 2018 (Unaudited) RMB'000 | 31 December 2017 (Audited) RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 25 | **830,354** | 680,736 |
| Contract liabilities | 21 | **240,976** | – |
| Amounts due to customers for contract work | | **–** | 1,691 |
| Provisions | | **49,576** | 41,246 |
| Deferred income | | **–** | 95,531 |
| Amount due to a related company | 26 | **2** | 1,400 |
| Amounts due to associates | 26 | **580** | 305 |
| Secured bank borrowings | 28 | **277,919** | 146,132 |
| Promissory note | | **–** | 46,226 |
| Income tax payable | | **50,054** | 23,339 |
| | | **1,449,461** | 1,036,606 |
| **Net current assets** | | **1,631,446** | 1,658,765 |
| **Total assets less current liabilities** | | **4,968,086** | 4,799,051 |
| **Non-current liabilities** | | | |
| Other payables | | **1,722** | 2,693 |
| Convertible preferred shares | 27 | **136,518** | 95,249 |
| Secured bank borrowings | 28 | **93,968** | 86,582 |
| Deferred tax liabilities | | **164,814** | 130,466 |
| | | **397,022** | 314,990 |
| **Net assets** | | **4,571,064** | 4,484,061 |
| **Capital and reserves** | | | |
| Share capital | 29 | **39,029** | 39,094 |
| Share premium and reserves | | **4,619,481** | 4,510,073 |
| Equity attributable to owners of the Company | | **4,658,510** | 4,549,167 |
| Non-controlling interests | | **(87,446)** | (65,106) |
| | | **4,571,064** | 4,484,061 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

| | Attributable to owners of the Company | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Other reserve | Capital reserve | Statutory reserves | Dividend reserve | Revaluation reserve | Treasury share reserve | Employee share-based compensation reserve | Translation reserve | Available-for-sale investment /equity instrument at fair value through other comprehensive income reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | 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 |
| Profit (loss) for the period | – | – | – | – | – | – | – | – | – | – | – | – | 25,777 | 25,777 | (32,864) | (7,087) |
| Other comprehensive income (expense) for the period | – | – | – | – | – | – | – | – | – | – | 9,659 | (7,940) | – | 1,719 | 2,203 | 3,922 |
| Total comprehensive income (expense) for the period | – | – | – | – | – | – | – | – | – | – | 9,659 | (7,940) | 25,777 | 27,496 | (30,661) | (3,165) |
| Repurchase and cancellation of shares | (91) | (23,641) | 91 | – | – | – | – | – | – | – | – | – | (91) | (23,732) | – | (23,732) |
| Shares issued upon exercise of share options | 151 | 13,447 | – | – | – | – | – | – | – | (4,301) | – | – | – | 9,297 | – | 9,297 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | – | 3,385 | – | – | – | 3,385 | – | 3,385 |
| Awarded shares vested to employees | – | – | – | – | – | – | – | – | 993 | (3,172) | – | – | 2,179 | – | – | – |
| Deemed disposal of subsidiaries to non-controlling shareholders | – | – | – | 1,454 | – | – | – | – | – | – | – | – | – | 1,454 | (1,454) | – |
| Acquisition of additional equity interests from a non-controlling interest | – | – | – | (285) | – | – | – | – | – | – | – | – | – | (285) | (7) | (292) |
| Contribution from non-controlling interests of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 8,042 | 8,042 |
| Final dividend for 2016 paid | – | – | – | – | – | – | (44,374) | – | – | – | – | – | (84) | (44,458) | – | (44,458) |
| Interim dividend for 2017 | – | – | – | – | – | – | 43,137 | – | – | – | – | – | (43,137) | – | – | – |
| At 30 June 2017 (unaudited) | 36,631 | 819,932 | 6,246 | 29,339 | 10,035 | 292,864 | 43,137 | 22,449 | (1,127) | 16,269 | (108,706) | (19,242) | 2,679,159 | 3,826,986 | (49,632) | 3,777,354 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

| | Attributable to owners of the Company | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Capital redemption reserve RMB'000 | Other reserve RMB'000 | Capital reserve RMB'000 | Statutory reserves RMB'000 | Dividend reserve RMB'000 | Revaluation reserve RMB'000 | Treasury share reserve RMB'000 | Employee share-based compensation reserve RMB'000 | Translation reserve RMB'000 | Available-for-sale investment /equity instrument at fair value through other comprehensive income reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2018 | 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 |
| Profit (loss) for the period | - | - | - | - | - | - | - | - | - | - | - | - | 200,740 | 200,740 | (22,998) | 177,742 |
| Other comprehensive expense for the period | - | - | - | - | - | - | - | - | - | - | (2,453) | (232) | - | (2,685) | (656) | (3,341) |
| Total comprehensive (expense) income for the period | - | - | - | - | - | - | - | - | - | - | (2,453) | (232) | 200,740 | 198,055 | (23,654) | 174,401 |
| Repurchase and cancellation of shares | (72) | (16,295) | 72 | - | - | - | - | - | - | - | - | - | (72) | (16,367) | - | (16,367) |
| Purchase of treasury shares | - | - | - | - | - | - | - | - | (39,324) | - | - | - | - | (39,324) | - | (39,324) |
| Shares issued upon exercise of share options | 7 | 2,498 | - | - | - | - | - | - | - | (831) | - | - | - | 1,674 | - | 1,674 |
| Recognition of equity-settled share-based payments | - | - | - | - | - | - | - | - | - | 12,280 | - | - | - | 12,280 | - | 12,280 |
| Awarded shares vested to employees | - | - | - | - | - | - | - | - | 6,784 | (7,994) | - | - | 1,210 | - | - | - |
| Acquisition of additional equity interests from a non-controlling interest | - | - | - | (2,386) | - | - | - | - | - | - | - | - | - | (2,386) | 1,314 | (1,072) |
| Final dividend for 2017 paid | - | - | - | - | - | - | (44,661) | - | - | - | - | - | 72 | (44,589) | - | (44,589) |
| Interim dividend for 2018, proposed | - | - | - | - | - | - | 44,973 | - | - | - | - | - | (44,973) | - | - | - |
| Transfers | - | - | - | - | - | 67 | - | - | - | - | - | - | (67) | - | - | - |
| At 30 June 2018 (unaudited) | 39,029 | 1,601,655 | 6,428 | 24,005 | 10,035 | 336,473 | 44,973 | 22,449 | (33,492) | 20,089 | (114,445) | (232) | 2,701,543 | 4,658,510 | (87,446) | 4,571,064 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **(Unaudited)** | (Unaudited) |
| | *NOTE* | ***RMB'000*** | *RMB'000* |
| **NET CASH USED IN OPERATING ACTIVITIES** | | **(156,721)** | (9,397) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(250,104)** | (156,386) |
| Acquisition of a subsidiary | 31 | **(92,425)** | – |
| Purchase of intangible assets | | **(15,535)** | (8,702) |
| Payment for deposits of property, plant and equipment | | **(6,603)** | (4,719) |
| Acquisition of additional equity interests from a non-controlling interest | | **(1,072)** | – |
| Placement of pledged bank deposits | | **(160)** | (145,078) |
| Proceeds from disposal of property held for sale | | **8,857** | – |
| Withdrawal of restricted bank balance | | **5,243** | – |
| Withdrawal of restricted bank deposit | | **5,000** | – |
| Investment in a joint venture | | **–** | (18,000) |
| Placement of restricted bank balance | | **–** | (13,611) |
| Purchase of property held for sale | | **–** | (11,238) |
| Purchase of available-for-sale investment | | **–** | (10,361) |
| Purchase of prepaid lease payment | | **–** | (28) |
| Proceeds from disposal of held-for-trading investment | | **–** | 151,841 |
| Withdrawal of bank deposits | | **–** | 54,858 |
| Other investing activities | | **3,807** | 4,983 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(342,992)** | (156,441) |
| **FINANCING ACTIVITIES** | | | |
| New bank borrowings raised | | **153,993** | 1,043,706 |
| Proceeds from shares issued upon exercise of share options | | **1,674** | 9,297 |
| Contribution from non-controlling shareholders | | **–** | 5,900 |
| Repayment of promissory note | | **(45,311)** | – |
| Dividends paid | | **(44,589)** | (44,458) |
| Payment for purchase of treasury shares | | **(39,324)** | – |
| Repayment of bank borrowings | | **(16,445)** | (872,677) |
| Payment for repurchase of shares | | **(16,367)** | (23,732) |
| **NET CASH (USED IN) FROM FINANCING ACTIVITIES** | | **(6,369)** | 118,036 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(506,082)** | (47,802) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | **1,578,477** | 876,532 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **1,692** | (10,838) |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH** | **1,074,087** | 817,892 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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 and mobile games development, including games design, programming and graphics and online and mobile games operation, (ii) education business and (iii) mobile solution, products and marketing business.

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

## 2. BASIS OF PREPARATION

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

## 3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

**Application of new and amendments to HKFRSs**

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

### 3.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

(i) Revenue from sales of pre-paid game cards for online and mobile games;

(ii) Revenue from the sales of education equipment and related goods;

(iii) Revenue from provision of mobile solution, products and marketing services; and

(iv) Revenue from the educational services.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Cont'd)

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

*3.1.1 Key changes in accounting policies resulting from application of HKFRS 15*

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation.

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Cont'd)

*3.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Cont'd)*

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group recognises revenue from the following major sources:

(i) Revenue from sales of pre-paid game cards upon online and mobile games is recognised at a point in time upon utilisation of game points;

(ii) Revenue from the sales of education equipment and related goods is recognised at a point in time when the education equipment and related goods are delivered and titles have passed;

(iii) Revenue from provision of mobile solution, products and marketing services, is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; and

(iv) Revenue from the educational services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

**Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

*Output method*

The progress towards complete satisfaction of a performance obligation on revenue from provision of mobile solution, products and marketing business services is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Cont'd)

*3.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Cont'd)*

**Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Cont'd)**

*Input method*

The progress towards complete satisfaction of a performance obligation on the revenue from educational services is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

**Variable consideration**

For contracts that contain variable consideration whereby the Group will actually transfer cash or credit note to a distributor when a rebate has been achieved, the Group estimates the amount of consideration to which it will be entitled using the most likely amount, and using the method that best predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in significant revenue in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and changes in circumstances during the reporting period.

**Existence of significant financing component**

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money, if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Cont'd)

*3.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Cont'd)*

**Warranties**

If a customer has the option to purchase an extended warranty separately, the Group accounts for the extended warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase an extended warranty separately, the Group accounts for the basic warranty in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

**Summary of effects arising from initial application of HKFRS 15**

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2017 | Reclassification | Carrying amounts under HKFRS 15 at 1 January 2018* |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current Assets** | | | |
| Contract assets | – | 21,008 | 21,008 |
| Other receivables, prepayments and deposits | 255,948 | (4,486) | 251,462 |
| Amounts due from customers for contract work | 16,522 | (16,522) | – |
| **Current Liabilities** | | | |
| Contract liabilities | – | 183,667 | 183,667 |
| Deferred income | 95,531 | (95,531) | – |
| Amounts due to customers for contract work | 1,691 | (1,691) | – |
| Trade and other payables | 680,736 | (86,445) | 594,291 |

* The amounts in this column are before the adjustments from the application of HKFRS 9.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Cont'd)

*3.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Cont'd)*

**Summary of effects arising from initial application of HKFRS 15 (Cont'd)**

In relation to contracts on provision of mobile solution, products and marketing services previously accounted under HKAS 11, the Group continues to apply output method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Revenue from educational services is measured based on input method. Approximately RMB16,522,000 of amounts due from customers for contract work and RMB4,486,000 of retention deposits included in other receivables, prepayments and deposits were reclassified to contract assets, and approximately RMB95,531,000, RMB1,691,000 and RMB86,445,000 of deferred income, amounts due to customers for contract work and receipts in advance included in trade and other payables were reclassified to contract liabilities respectively.

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

**Impact on the condensed consolidated statement of financial position**

| | As reported | Adjustments | Amounts without application of HKFRS 15 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current Assets** | | | |
| Contract assets | 17,893 | (17,893) | – |
| Other receivables, prepayments and deposits | 349,108 | 7,135 | 356,243 |
| Amounts due from customers for contract work | – | 10,758 | 10,758 |
| **Current Liabilities** | | | |
| Contract liabilities | 240,976 | (240,976) | – |
| Deferred income | – | 98,538 | 98,538 |
| Amounts due to customers for contract work | – | 1,102 | 1,102 |
| Trade and other payables | 830,354 | 141,336 | 971,690 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 3.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and contract assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

#### *3.2.1 Key changes in accounting policies resulting from application of HKFRS 9*

**Classification and measurement of financial assets**

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity instruments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity instrument in other comprehensive income ("OCI") if that equity instrument is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 3.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Cont'd)

#### *3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)*

**Classification and measurement of financial assets (Cont'd)**

*Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")*

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the equity instruments at FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity instruments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investments. Dividends are included in the "other income" line item in profit or loss.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

**Impairment under ECL model**

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including loan receivables, trade receivables, amounts due from related companies, amounts due from associates, amount due from a joint venture, pledged bank deposits, restricted bank balances, bank balances and cash, and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 3.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Cont'd)

*3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)*

**Impairment under ECL model (Cont'd)**

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

*Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Cont'd)

*3.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Cont'd)*

**Impairment under ECL model (Cont'd)**

*Significant increase in credit risk (Cont'd)*

For loan commitments contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment relates.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Cont'd)

*3.2.2 Summary of effects arising from initial application of HKFRS 9*

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | *Note* | **Available-for-sale investments** *RMB'000* | **Equity instruments at FVTOCI** *RMB'000* |
|---|---|---|---|
| **Closing balance at 31 December 2017: HKAS 39** | | 10,859 | – |
| **Reclassification** | | | |
| From available-for-sale | (a) | (10,859) | 10,859 |
| **Opening balance at 1 January 2018** | | – | 10,859 |

*Notes:*

(a) From available-for-sale investments to equity instruments at FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity instruments previously classified as available-for-sale investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, approximately RMB10,859,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which approximately RMB5,000,000 related to unquoted equity instruments previously measured at cost less impairment under HKAS 39.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### 3.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Cont'd)

#### *3.2.2 Summary of effects arising from initial application of HKFRS 9 (Cont'd)*

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. To measure the ECL, contract assets and trade receivables have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

As at 1 January 2018, there is no significant additional credit loss allowance recognised upon the application of HKFRS 9.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

| | 31 December 2017 (Audited) | HKFRS 15 | HKFRS 9 | 1 January 2018 (Restated) |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current Assets** | | | | |
| Available-for-sale investments | 10,859 | — | (10,859) | — |
| Equity instruments at FVTOCI | — | — | 10,859 | 10,859 |
| **Current Assets** | | | | |
| Amounts due from customers for contract work | 16,522 | (16,522) | — | — |
| Other receivables, prepayments and deposits | 255,948 | (4,486) | — | 251,462 |
| Contract assets | — | 21,008 | — | 21,008 |
| **Current Liabilities** | | | | |
| Trade and other payables | 680,736 | (86,445) | — | 594,291 |
| Contract liabilities | — | 183,667 | — | 183,667 |
| Amounts due to customers for contract work | 1,691 | (1,691) | — | — |
| Deferred income | 95,531 | (95,531) | — | — |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. REVENUE, OTHER INCOME AND GAINS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Online and mobile games revenue | **1,039,346** | 802,405 |
| Education revenue | **1,384,074** | 934,077 |
| Mobile solution, products and marketing revenue | **46,521** | 38,768 |
| | **2,469,941** | 1,775,250 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. REVENUE, OTHER INCOME AND GAINS (Cont'd)

**Disaggregation of revenue**

*Types of goods and services*

| | Six months ended 30 June 2018 (Unaudited) | | | |
|---|---|---|---|---|
| | Online and mobile games revenue | Education revenue | Mobile solution, products and marketing revenue | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue from online and mobile games | 1,039,346 | – | – | 1,039,346 |
| Sales of education equipment | – | 1,340,535 | – | 1,340,535 |
| Revenue from provision of mobile solution, products and marketing services | – | – | 46,521 | 46,521 |
| Revenue from educational services | – | 43,539 | – | 43,539 |
| | 1,039,346 | 1,384,074 | 46,521 | 2,469,941 |

*Timing of revenue recognition*

| | Six months ended 30 June 2018 (Unaudited) | | | |
|---|---|---|---|---|
| | Online and mobile games revenue | Education revenue | Mobile solution, products and marketing revenue | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| A point in time | 1,039,346 | 1,340,802 | – | 2,380,148 |
| Over time | – | 43,272 | 46,521 | 89,793 |
| | 1,039,346 | 1,384,074 | 46,521 | 2,469,941 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. REVENUE, OTHER INCOME AND GAINS (Cont'd)

*Geographical information*

| | Six months ended 30 June 2018 (Unaudited) | | | |
|---|---|---|---|---|
| | Online and mobile games revenue | Education revenue | Mobile solution, products and marketing revenue | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| People's Republic of China (the "PRC") | 968,463 | 110,267 | – | 1,078,730 |
| United States of America ("USA") | 56,307 | 529,491 | – | 585,798 |
| Russia | – | 389,306 | – | 389,306 |
| United Kingdom | – | 112,311 | – | 112,311 |
| Germany | – | 61,151 | – | 61,151 |
| Hong Kong | – | 215 | 43,557 | 43,772 |
| France | – | 34,229 | – | 34,229 |
| Netherlands | – | 14,748 | – | 14,748 |
| Vietnam | – | 13,548 | – | 13,548 |
| Australia | – | 11,644 | – | 11,644 |
| India | – | 11,370 | – | 11,370 |
| Others | 14,576 | 95,794 | 2,964 | 113,334 |
| | 1,039,346 | 1,384,074 | 46,521 | 2,469,941 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 4. REVENUE, OTHER INCOME AND GAINS (Cont'd)

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Other income and gains** | | |
| Government grants *(Note)* | **8,090** | 22,719 |
| Interest income | **5,933** | 4,392 |
| Net foreign exchange gain | **9,570** | – |
| Fair value gain of investment properties | **8,962** | 3,969 |
| Game implementation income | **938** | 3,287 |
| Rental income | **4,860** | 2,082 |
| Server rental income | **11** | 248 |
| Others | **1,453** | 828 |
| | **39,817** | 37,525 |

*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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 5. SEGMENT INFORMATION

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

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

**Six months ended 30 June 2018**

| | Online and mobile games (Unaudited) *RMB'000* | Education (Unaudited) *RMB'000* | Mobile solution, products and marketing (Unaudited) *RMB'000* | Total (Unaudited) *RMB'000* |
|---|---|---|---|---|
| Segment revenue | 1,039,346 | 1,384,074 | 46,521 | 2,469,941 |
| Segment profit (loss) | 546,766 | (149,664) | (7,544) | 389,558 |
| Unallocated other income and gains | | | | 25,168 |
| Unallocated expenses and losses | | | | (183,937) |
| Profit before taxation | | | | 230,789 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 5. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2017

| | Online and mobile games (Unaudited) *RMB'000* | Education (Unaudited) *RMB'000* | Mobile solution, products and marketing (Unaudited) *RMB'000* | Total (Unaudited) *RMB'000* |
|---|---|---|---|---|
| Segment revenue | 802,405 | 934,077 | 38,768 | 1,775,250 |
| Segment profit (loss) | 386,815 | (212,248) | (8,957) | 165,610 |
| Unallocated other income and gains | | | | 8,754 |
| Unallocated expenses and losses | | | | (149,999) |
| Net fair value gain on held-for-trading investment | | | | 58 |
| Profit before taxation | | | | 24,423 |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned or loss incurred from each segment without allocation of net fair value gain on held-for-trading investment 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 5. SEGMENT INFORMATION (Cont'd)

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

| | **30 June 2018 (Unaudited) *RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Online and mobile games | **2,547,723** | 2,377,169 |
| Education | **3,034,931** | 2,257,793 |
| Mobile solution, products and marketing | **186,351** | 200,240 |
| Total segment assets | **5,769,005** | 4,835,202 |
| Unallocated | **648,542** | 1,000,455 |
| | **6,417,547** | 5,835,657 |

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 equity instruments at FVTOCI/available-for-sale investments, loan receivables, properties under development, certain prepaid lease payments and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 6. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| The tax charge comprises: | | |
| Hong Kong Profits Tax | **4,098** | 4,280 |
| The PRC Enterprise Income Tax ("EIT") | **50,668** | 31,486 |
| Taxation in other jurisdictions | **2,032** | 377 |
| Deferred tax | **(3,751)** | (4,633) |
| | **53,047** | 31,510 |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2018 and 30 June 2017.

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

The United Kingdom Corporate Tax Rate applicable to subsidiaries is 19% for the six months ended 30 June 2018 (30 June 2017: 20% from 1 January 2017 to 31 March 2017, and 19% effective from 1 April 2017 to 30 June 2017).

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 7. PROFIT (LOSS) FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Profit (loss) for the period has been arrived at after charging (crediting): | | |
| Staff costs: | | |
| Directors' emoluments | **12,468** | 7,816 |
| Other staff costs | | |
| Salaries and other benefits | **730,480** | 619,173 |
| Contributions to retirement benefits schemes | **72,408** | 60,892 |
| Share-based payments expense | **5,659** | 748 |
| | **821,015** | 688,629 |
| Amortisation of intangible assets | **42,041** | 41,141 |
| Amortisation of prepaid lease payments (included in administrative expenses) | **3,294** | 2,978 |
| Depreciation of property, plant and equipment | **76,222** | 79,715 |
| Total depreciation and amortisation | **121,557** | 123,834 |
| Cost of education equipment sold recognised in cost of revenue | **913,361** | 627,123 |
| Impairment of trade receivables | **13** | 96 |
| Operating lease rentals in respect of: | | |
| – rented premises | **36,226** | 32,166 |
| – computer equipment | **26,755** | 25,820 |
| Gross rental income from investment properties | **(894)** | (866) |
| Less: Direct operating expenses incurred for investment properties that generated rental income during the period | **–** | – |
| | **(894)** | (866) |
| Net loss on disposal of property, plant and equipment | **298** | 1,385 |
| Fair value gain of investment properties | **(8,962)** | (3,969) |
| Net foreign exchange (gain) loss | **(5,398)** | 544 |

## 8. DIVIDENDS

On 20 June 2018, a dividend of Hong Kong dollar ("HKD") 0.10 per share (2017: HKD0.10 per share) was paid to shareholders as the final dividend for 2017. The aggregate amount of the final dividend paid in current interim period amounted to approximately RMB44,589,000 (2017: RMB44,458,000).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.10 per share (2017: HKD0.10 per share), amounting to approximately HKD53,342,000 (equivalent to approximately RMB44,973,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 13 September 2018.

## 9. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Profit for the purpose of basic and diluted earnings per share: | | |
| – profit for the period attributable to the owners of the Company | **200,740** | 25,777 |

| | Number of shares<br>Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***'000*** | *'000* |
| Weighted average number of shares in issue during the period for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme) | **533,482** | 495,350 |
| Effect of dilutive potential shares from the Company's share option scheme | **1,094** | 707 |
| Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme) | **534,576** | 496,057 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the deposits of approximately RMB3,498,000 (six months ended 30 June 2017: RMB5,094,000) were transferred to property, plant and equipment and the Group spent approximately RMB250,104,000 (six months ended 30 June 2017: RMB156,386,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB39,913,000 (six months ended 30 June 2017: RMB35,630,000) in plant and equipment and RMB207,617,000 (six months ended 30 June 2017: RMB90,566,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

## 11. PREPAID LEASE PAYMENTS

During the six months ended 30 June 2017, the Group spent approximately RMB28,000 (six months ended 30 June 2018: Nil) for the acquisition of prepaid lease payments to expand its buildings located in Fuzhou. The Group is in the process of obtaining the land use right certificate.

## 12. INVESTMENT PROPERTIES

The fair values of the Group's investment properties, including both land and building elements, as at 30 June 2018 and 31 December 2017 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 fair values of the investment properties are determined based on the market approach which uses the prices and other relevant information generated by market transactions involving comparable properties. One of the key inputs used in valuing the investment properties is the sales prices of properties nearby the Group's investment properties which ranged from HKD31,184 (equivalent to approximately RMB26,300) per sq.ft to HKD32,000 (equivalent to approximately RMB27,000) per sq.ft, where sq.ft is a common unit of area used in Hong Kong. An increase in the sales prices would result in an increase in fair value measurement of the investment properties, and vice versa. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The investment properties were commercial property units located in Hong Kong categorised into Level 3 of the fair value hierarchy as at 30 June 2018 and 31 December 2017.

The fair value gain of the investment properties for the six months ended 30 June 2018 was approximately RMB8,962,000 (six months ended 30 June 2017: approximately RMB3,969,000), and was recognised in other income and gains.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 13. INTANGIBLE ASSETS

During the six months ended 30 June 2018, the Group spent approximately RMB142,631,000 (six months ended 30 June 2017: RMB8,702,000) for the acquisition of intangible assets to expand its operations which included an amount of RMB127,096,000 (six months ended 30 June 2017: Nil) being acquired upon the acquisition of a subsidiary. The Group has no material write-off of intangible assets in either period.

## 14. INTERESTS IN ASSOCIATES

| | **30 June 2018 (Unaudited)** ***RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Unlisted investments: | | |
| Cost of investments | **28,992** | 28,992 |
| Share of post-acquisition losses | **(13,296)** | (13,031) |
| Group's share of net assets of associates | **15,696** | 15,961 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 15. INTEREST IN A JOINT VENTURE

| | **30 June 2018 (Unaudited) *RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Unlisted investment: | | |
| Cost of investment | **18,000** | 18,000 |
| Share of post-acquisition loss | **(765)** | (567) |
| Group's share of net assets of a joint venture | **17,235** | 17,433 |

| **Name of entity** | **Proportion of ownership interest and voting rights held by the Group** | | **Country of establishment/ operation** | **Registered capital** | **Principal activities** |
|---|---|---|---|---|---|
| | **2018** | 2017 | | | |
| 福建省國騰信息科技有限公司 ("國騰") *(Note)* | **60%** | 60% | 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 act in concert and 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 16. INVENTORIES

| | **30 June 2018 (Unaudited) *RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Raw materials | **7,561** | 8,268 |
| Work in progress | **120** | 134 |
| Finished goods | **119,851** | 98,028 |
| | **127,532** | 106,430 |

## 17. TRADE RECEIVABLES

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

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

| | **30 June 2018 (Unaudited) *RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Trade debtors | | |
| 0 - 30 days | **469,380** | 227,847 |
| 31 - 60 days | **259,758** | 81,630 |
| 61 - 90 days | **94,863** | 29,269 |
| Over 90 days | **109,834** | 29,509 |
| Receivables with extended credit terms | | |
| Due within one year | **11,981** | 11,817 |
| Due after one year | **–** | 3,912 |
| | **945,816** | 383,984 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 18. GOODWILL

| | **30 June 2018 (Unaudited)** | 31 December 2017 (Audited) |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| COST AND CARRYING VALUES | | |
| At the beginning of the period | **388,675** | 338,237 |
| Arising on acquisition of subsidiaries | **64,444** | 46,939 |
| Exchange adjustments | **(56)** | 3,499 |
| At the end of the period | **453,063** | 388,675 |

Particulars regarding impairment testing on goodwill are disclosed in Note 19.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 19. 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 18 and 13 have been allocated to ten individual or groups of cash-generating units ("CGUs"), comprising three subsidiaries in the online and mobile games segment, five subsidiaries in the education segment and two subsidiaries in the mobile solution, products and marketing segment. The carrying amounts of goodwill and trademarks as at 30 June 2018 and 31 December 2017 allocated to these units are as follows:

| | Goodwill as at | | Trademarks as at | |
|---|---|---|---|---|
| | **30 June 2018 (Unaudited) *RMB'000*** | 31 December 2017 (Audited) *RMB'000* | **30 June 2018 (Unaudited) *RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
| Online and mobile games: | | | | |
| CGU-1 | **6,104** | 6,104 | **–** | – |
| CGU-2 | **8** | 8 | **–** | – |
| CGU-3 | **15,378** | 15,247 | **–** | – |
| | **21,490** | 21,359 | **–** | – |
| Education: | | | | |
| CGU-4 | **12,534** | 12,534 | **–** | – |
| CGU-5 | **31,097** | 31,097 | **–** | – |
| CGU-6 | **233,118** | 236,461 | **246,448** | 249,981 |
| CGU-7 | **45,825** | 45,255 | **24,100** | 23,800 |
| CGU-8 | **66,905** | – | **131,950** | – |
| | **389,479** | 325,347 | **402,498** | 273,781 |
| Mobile solution, products and marketing: | | | | |
| CGU-9 | **27,479** | 27,479 | **–** | – |
| CGU-10 | **14,615** | 14,490 | **–** | – |
| | **42,094** | 41,969 | **–** | – |
| | **453,063** | 388,675 | **402,498** | 273,781 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

The recoverable amounts of the CGUs arising from online and mobile games, education and mobile solution, products and marketing business were determined individually based on value in use calculations. Those value in use calculations use cash flow projections based on financial forecasts approved by management covering a five-year period and discount rates of 14.63% (2017: 13.44%), 14.63% (2017: 13.44%), 26.84% (2017: 27.30%), 14.63% (2017: 13.44%), 24.15% (2017: 24.10%), 22.76% (2017: 23.84%), 15.22% (2017: 15.20%), 19.26% (2017: N/A), 20.37% (2017: 20.65%) and 21.16% (2017: 21.44%) for each CGU respectively. Cash flows beyond five-year period is extrapolated using a steady growth rate ranging from 1.9% to 30.0%. Cash flow projections during the forecast period for the CGUs are based on the budgeted sales and expected gross margins during the forecast period. Forecasted sales and gross margins were determined based on past performance and the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs to exceed the recoverable amounts of respective CGUs.

During the six months ended 30 June 2018 and the year ended 31 December 2017, management of the Group determines that there is no impairment of any of its CGUs containing goodwill or trademarks with indefinite useful lives.

## 20. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

The balance mainly represents deposits and prepayments for education equipment and office and server rental of approximately RMB166,436,000 (2017: RMB166,540,000), other tax receivables of approximately RMB43,195,000 (2017: RMB28,524,000), interest receivables of approximately RMB705,000 (2017: RMB2,558,000) and other miscellaneous items for operating and investing activities.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 21. CONTRACT ASSETS/LIABILITIES

| | 30 June 2018 (Unaudited) RMB'000 |
|---|---|
| **Contract assets:** | |
| Mobile solution, products and marketing | 10,758 |
| Education | 7,135 |
| | 17,893 |
| **Contract liabilities:** | |
| Online and mobile games | 28,405 |
| Education | 132,970 |
| Mobile solution, products and marketing | 1,102 |
| Unallocated segment | 78,499 |
| | 240,976 |

The contract assets primarily relate to retention deposits and the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on the provision of mobile solution, products and marketing services. The contract assets are transferred to trade receivables when the rights become unconditional.

The contract liabilities include deferred income from unutilised game points on online and mobile games, advance payments from customers for future contracted goods and services and the Group's obligation to complete the work in relation to the provision of mobile solution, products and marketing services, for which the consideration has been billed in advance on the provision of mobile solution, products and marketing services performed. The contract liabilities are transferred to revenue when customers control and receive the benefits.

## 22. AMOUNTS DUE FROM RELATED COMPANIES/ASSOCIATES

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 23. PLEDGED BANK DEPOSITS

As at 30 June 2018, pledged bank deposits represent deposits pledged to banks to secure a bank borrowing granted to the Group, to secure a lease and to obtain credit card facility and letter of credit facility.

As at 31 December 2017, pledge bank deposits represent deposit to secure a bank borrowing granted to the Group and to obtain credit card facility.

## 24. PROPERTY HELD FOR SALE

| | **30 June 2018 (Unaudited)** ***RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Freehold land and building held for sale | **–** | 9,213 |

During the six months ended 30 June 2018, a property located in the United States that was classified as property held for sale was disposed. Net loss on disposal of RMB68,000 (for the six months ended 30 June 2017: Nil) was recognised during the six months ended 30 June 2018.

## 25. TRADE AND OTHER PAYABLES

| | **30 June 2018 (Unaudited)** ***RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Trade payables | **502,677** | 242,169 |
| Accrued staff costs | **144,793** | 183,284 |
| Government grants *(a)* | **20,176** | 13,495 |
| Receipt in advance | **522** | 86,511 |
| Other tax payables | **25,495** | 26,476 |
| Other payables and accruals *(b)* | **136,691** | 128,801 |
| | **830,354** | 680,736 |

*Notes:*

*(a)* Government grants are assets related and amortised over the life of related assets.

*(b)* Other payables and accruals mainly represent construction payable, advertising payable, office and server rental payable and other miscellaneous items for operating and investing activities.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 25. TRADE AND OTHER PAYABLES (Cont'd)

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

| | **30 June 2018 (Unaudited) *RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| 0 - 90 days | **408,421** | 230,001 |
| 91 - 180 days | **89,179** | 7,931 |
| 181 - 365 days | **4,212** | 2,288 |
| Over 365 days | **865** | 1,949 |
| | **502,677** | 242,169 |

## 26. AMOUNT(S) DUE TO A RELATED COMPANY/ASSOCIATES

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

## 27. CONVERTIBLE PREFERRED SHARES

On 13 February 2015, 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 United States dollar ("USD") 0.001 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 12.4% of the issued share capital of the Company, "IDG Investors"), Vertex Asia Fund Pte. Ltd. ("Vertex"), Alpha Animation and Culture (Hong Kong) Company Limited ("Alpha"), Catchy Holdings Limited, DJM Holding Ltd. ("DJM", in which Mr. Liu Dejian and Mr. Zheng Hui, executive directors and beneficial owners of the Company together have 100% equity interest), Creative Sky International Limited and NetDragon Websoft Inc., a direct wholly owned subsidiary of the Company. The Series A convertible preferred shares are denominated in USD.

On 2 May 2018, Best Assistant issued 112,560,245 Series B convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD122,500,000 (equivalent to approximately RMB780,713,000) to Fortis Advisors LLC as a consideration to acquire Edmodo, Inc. ("Edmodo"). The Series B convertible preferred shares are denominated in USD.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 27. CONVERTIBLE PREFERRED SHARES (Cont'd)

### Conversion

The Series A and Series B 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 certain adjustments (such as proportional adjustment and anti-dilution adjustment).

The Series A and Series B 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 the outstanding Series A and Series B 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 the Series A and Series B convertible preferred shares shall not be cumulative, and no rights to such dividends shall accrue to holders of convertible preferred shares.

### Liquidation

The holders of the Series A convertible preferred shares have preference over holders of ordinary shares and other equity securities with respect to payment of dividends and distribution of assets and funds upon liquidation of the subsidiary of the Company. The holders of the Series A convertible preferred shares shall be entitled to receive an amount equivalent to 300% of the issue price of the Series A convertible preferred shares, plus all declared but unpaid dividends.

The holders of the Series B convertible preferred shares shall be entitled to receive for each of the outstanding Series B convertible preferred shares held, an amount equal to the Series B adjusted price, plus all declared but unpaid dividends. The Series B adjusted price means, at any given time, the Series B issue price by a fraction, (i) the numerator of which is equal to the original Series B value minus the aggregate indemnification claim amount, and (ii) the denominator of which is the original Series B value; provided, that the Series B adjusted price will not be reduced below USD0.001 per share.

If the assets and funds thus distributed amount the preferred shareholders shall be insufficient for the full payment of the preference amount to all the preferred shareholders, then the entire assets and funds of Best Assistant legally available for distribution shall be distributed rateably among the preferred shareholders in proportion to the aggregate preference amount each such preferred shareholder is otherwise entitled to receive.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 27. CONVERTIBLE PREFERRED SHARES (Cont'd)

The convertible preferred shares are classified as non-current liabilities.

The Group has elected to designate the Series A and Series B 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 and Series B 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 convertible preferred shares for the period are set out as below:

| | **30 June 2018 (Unaudited)** ***RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| At the beginning of the period | **95,249** | 104,101 |
| Issue of Series B convertible preferred shares | **64,556** | — |
| Fair value change | **(26,953)** | (2,809) |
| Exchange adjustments | **3,666** | (6,043) |
| At the end of the period | **136,518** | 95,249 |

Key assumption in valuation of preferred shares in current period is the capital value of the shareholders' equity, reflects the future economic benefit to be derived from the ownership of the subject asset.

## 28. SECURED BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB153,993,000 (six months ended 30 June 2017: RMB1,043,706,000). The secured bank borrowings carry interest at (i) interest rate of 190 basis points over one-month to two-month London Inter-Bank Offer Rate per annum, (ii) one-month Hong Kong Inter-Bank Offer Rate plus 1.85% or 2.20% per annum, (iii) interest rate of 3.25% to 4.95% per annum and (iv) interest rate of 5.20% per annum, and are repayable from 2018 to 2022. The borrowings were secured by a pledged bank deposit as mentioned in Note 23, a pledge of property of a subsidiary, corporate guarantee provided by the Company and corporate guarantee provided by subsidiaries. The proceeds were used to finance the operations.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 29. SHARE CAPITAL

| | Number of shares | Nominal value | |
|---|---|---|---|
| | | *USD* | *RMB'000* |
| **Authorised:** | | | |
| Ordinary shares of USD0.01 each | | | |
| At 1 January 2017, 31 December 2017, and 30 June 2018 | **1,000,000,000** | **10,000,000** | **75,771** |
| **Issued and fully paid:** | | | |
| Ordinary shares of USD0.01 each | | | |
| At 1 January 2017 | 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** |
| Shares issued upon exercise of share options *(Note i)* | **115,400** | **1,154** | **7** |
| Repurchase and cancellation of shares *(Note ii)* | **(981,500)** | **(9,815)** | **(72)** |
| At 30 June 2018 | **533,419,691** | **5,334,197** | **39,029** |

*Notes:*

(i) During the six months ended 30 June 2018, 115,400 (year ended 31 December 2017: 2,453,513) share options were exercised and as a result of 115,400 (year ended 31 December 2017: 2,453,513) ordinary shares were issued. Approximately RMB7,000 (year ended 31 December 2017: RMB169,000) and RMB2,498,000 (year ended 31 December 2017: RMB15,906,000) were recorded as share capital and share premium, respectively.

(ii) During the six months ended 30 June 2018, the Company repurchased 981,500 (year ended 31 December 2017: 2,737,500) of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was approximately RMB16,367,000 (year ended 31 December 2017: RMB49,147,000).

(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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 30. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company's share option scheme (the "Old Scheme") was adopted pursuant to a resolution passed on 12 June 2008. The Old Scheme has expired on 12 June 2018 and a new share option scheme (the "New Scheme") was approved and adopted by the Shareholders at the annual general meeting of the Company held on 24 May 2018. The purpose of the Old Scheme and New Scheme is to provide the eligible participant ("Eligible Participant") as defined in the Old Scheme and New Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

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

| | **Number of share options** |
|---|---:|
| Outstanding as at 1 January 2018 | 2,817,109 |
| Forfeited during the period | (1,500) |
| Exercised during the period | (115,400) |
| Outstanding as at 30 June 2018 | 2,700,209 |

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD19.83. The Group recognised the total expenses of approximately RMB917,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB846,000) in relation to share options granted by the Company.

Upon the disposal of 91 Wireless Websoft Limited and its subsidiaries ("91 Group"), few participants of 91 Group under the Old Scheme are no longer the staff of the Group. However, the share options of these participants shall not lapse on the date of the disposal, but shall continue to have effect under the Old Scheme. The Group recognised the total expense of approximately RMB1,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB17,000) in relation to these share options granted.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 30. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme by the Company

The Company has a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The Group recognised the total expenses of approximately RMB11,362,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB2,522,000) in relation to share award.

Among the Award granted on 31 December 2012, no share awards were vested and released during the six months ended 30 June 2018 (six months ended 30 June 2017: 118,212 share awards). No share awards were forfeited during the six months ended 30 June 2018 and 2017. No share awards were outstanding at 30 June 2018 and 31 December 2017.

Among the Award granted on 21 January 2016, 38,334 and 630 share awards were vested on 9 September 2017 and 20 January 2018, respectively. 69,320 share awards will be vested on 1 September 2018.

Among the Award granted on 31 March 2017, 100,000 share awards were granted and vested during the six months ended 30 June 2017.

Among the Award granted on 19 April 2018, 2,496,990 share awards were granted and 517,470 share awards were vested during the six months ended 30 June 2018. 494,880, 494,880, 494,880 and 494,880 share awards will be vested on 30 April 2019, 30 April 2020, 30 April 2021 and 30 April 2022, respectively.

(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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 30. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(iii) Share awarded by a subsidiary of the Company (Cont'd)

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 a 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 on 1 July 2017 and 16,000 share awards were vested and released on the same day. The number of share awards outstanding at 30 June 2018 and 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 RMB12,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil) in relation to the share awards.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 31. ACQUISITION OF A SUBSIDIARY

Acquisition of Edmodo

On 6 April 2018, Digital Train Limited ("Digital Train"), an indirect non-wholly owned subsidiary of the Company, entered into an agreement (the "Agreement") with independent third parties (the "Sellers"), pursuant to which the Sellers agreed to sell and Digital Train agreed to acquire 100% equity interests of Edmodo, for consideration in the form of cash and the Series B convertible preferred shares collectively valued in the amount of USD25,130,000 (equivalent to approximately RMB160,158,000). The consideration was satisfied by the payment of an amount in cash equal to USD15,000,000 (equivalent to approximately RMB95,602,000) and the issue of 112,560,245 Series B convertible preferred shares of Best Assistant. The transaction was completed on 2 May 2018 (USA time). Edmodo is a global education network offering a free communication and collaboration platform to K-12 schools targeting teachers, students, administrators and parents. The acquisition of Edmodo is a testament to the Group's on-going commitment to building the largest online learning community on a global scale.

**Consideration transferred**

| | *RMB'000* |
|---|---|
| Cash | 95,602 |
| Series B convertible preferred shares | 64,556 |
| Total | 160,158 |

Acquisition-related costs amounting to RMB5,115,000 have been excluded from the cost of acquisition and are recognised directly as expenses when they are incurred.

## 31. ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of Edmodo (Cont'd)

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

| | *RMB'000* |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | **2,379** |
| Pledged bank deposit | **8,241** |
| Intangible asset | **127,096** |
| **Current assets** | |
| Trade receivables | **1,623** |
| Deposits, prepayments and other receivables | **1,510** |
| Bank balances and cash | **3,177** |
| Pledged bank deposits | **1,990** |
| **Current liabilities** | |
| Trade payables | **(4,195)** |
| Other payables and accruals | **(8,107)** |
| Contract liabilities | **(75)** |
| **Non-current liability** | |
| Deferred tax liability | **(37,925)** |
| Net assets acquired | **95,714** |

The fair values of trade receivables and other receivables are RMB1,623,000 and RMB21,000 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 Edmodo (determined on a provisional basis)

| | *RMB'000* |
|---|---|
| Consideration transferred | **160,158** |
| Less: Fair value of identifiable net assets acquired | **(95,714)** |
| Goodwill arising on acquisition | **64,444** |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 31. ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of Edmodo (Cont'd)

Goodwill arose on the acquisition of Edmodo because the acquisition included the assembled workforce of Edmodo 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 Edmodo

| | ***RMB'000*** |
|---|---|
| Consideration paid in cash | **95,602** |
| Less: Cash and cash equivalent balances acquired | **(3,177)** |
| | **92,425** |

Impact of acquisition on the results of the Group

Included in the profit for the six months ended 30 June 2018 was the loss of approximately RMB17,753,000 attributable to the additional business generated by Edmodo. Revenue for the six months ended 30 June 2018 attributable to the additional business generated by Edmodo approximated RMB989,000.

Had the acquisition been completed on 1 January 2018, total group revenue for the six months ended 30 June 2018 would have been RMB2,472,458,000, and profit for the six months ended 30 June 2018 would have been RMB171,542,000. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Edmodo been acquired at the beginning of the interim period, the directors of the Company calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of acquisition.

## 32. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by the Ultimate Controlling Shareholders, who have entered into an agreement to collectively govern the financial and operating policies of the Company and various subsidiaries.

The Group had the following significant related party transactions and balances during the period.

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

| | **Six months ended 30 June** | |
|---|---|---|
| Nature of transactions | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Rental charges paid to Fuzhou 851 | **3,654** | 3,462 |
| Service fee at recreation centre paid to Fuzhou 851 | **3,856** | 3,500 |
| After-sales service fee paid to Fuzhou Tianliang | **4,636** | 4,404 |
| Technical service fee paid to Fuzhou Tianliang | **993** | 944 |
| Goods purchased from 福建創思教育 | **700** | 2,429 |
| Goods purchased from 福建一零一教育 | **–** | 9 |
| Interest income on loan advanced to key management | **201** | 86 |
| Property purchased from key management | **–** | 11,238 |

Included in loan receivables as at 30 June 2018 was loan advanced to key management of approximately RMB8,663,000 (31 December 2017: RMB5,359,000), in which (i) an amount of RMB3,308,000 (31 December 2017: RMB3,267,000) is non-trade nature, secured by shares, repayable on 31 August 2019 and carries interest of 5% per annum (ii) an amount of RMB3,372,000 (31 December 2017: Nil) is non-trade nature, unsecured, repayable on 15 January 2019 and carries interest of 5% per annum (iii) the remaining amounts are non-trade nature, unsecured, repayable on monthly instalment or on 30 April 2022 and carry interest of 4.75% or 4.90%.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 32. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Salaries, allowances and other short-term employee benefits | **12,065** | 9,302 |
| Contribution to retirement benefits schemes | **221** | 150 |
| Share-based payments expense | **9,349** | 2,521 |
| | **21,635** | 11,973 |

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

## 33. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

Fair value of the Group's financial assets and financial liability that are measured at fair value on a recurring basis (Cont'd)

| Financial asset/ financial liability | Fair value as at 30 June 2018 (Unaudited) *RMB'000* | Fair value as at 31 December 2017 (Audited) *RMB'000* | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Certain available-for-sale investment | **–** | 5,859 | Level 1 | Quoted bid prices in an active market. | N/A | N/A |
| Certain equity instrument at FVTOCI | **5,627** | – | Level 1 | Quoted bid prices in an active market. | N/A | N/A |
| Certain equity instrument at FVTOCI | **5,000** | – | Level 3 | Discount cash flow using key input as follows: budgeted sales, expected gross margin, expected growth rate and discount rate. | Discount rate that reflected the expected return rate of the Group. | The higher the discount rate, the lower the fair value. |
| Convertible preferred shares | **136,518** | 95,249 | Level 3 | Valuation of the principal cash flow: Income approach - In this approach, discount cash flow menthod was used to capture the present value of the expected future economic benefits to be derived. | Discount rate that reflected the expected rate of return. | The higher the discount rate, the lower the fair value. |
| | | | | Valuation for the convertible options: Black-Scholes pricing model using key input: expected volatility. | Volatility is estimated based on the historical volatilities of the comparable companies. | The higher the expected volatility, the lower the fair value. |

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

Fair value of the Group's financial assets and financial liability that are measured at fair value on a recurring basis (Cont'd)

**Reconciliation of Level 3 fair value measurements of financial asset**

| | **Unlisted equity instrument at FVTOCI** |
|---|---|
| | ***RMB'000*** |
| At 1 January 2018 (note 3.2.2) and 30 June 2018 | **5,000** |

**Reconciliation of Level 3 fair value measurements of financial liability**

| | **Convertible preferred shares** |
|---|---|
| | ***RMB'000*** |
| At 1 January 2018 (note 3.3) | **95,249** |
| Gain on fair value changes credited in profit or loss | **(26,953)** |
| Issue of Series B convertible preferred shares | **64,556** |
| Exchange adjustments | **3,666** |
| At 30 June 2018 | **136,518** |

**Fair value measurements and valuation process**

The board of directors of the Group has named the finance department, which is headed up by the Chief Financial Officer of the Group to determine the appropriate valuation techniques and inputs for fair value measurements.

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 finance department works closely with the qualified external vaulers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the finance department's findings to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liability are disclosed above.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 34. CAPITAL COMMITMENTS

At the end of reporting period, the Group had the following capital commitments contracted for but not provided in the condensed consolidated financial statements:

| | **30 June 2018 (Unaudited)** | 31 December 2017 (Audited) |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Capital expenditure in respect of the capital injection in a joint venture | **582,000** | 582,000 |
| Capital expenditure in respect of the acquisition of property, plant and equipment | **397,626** | 542,636 |
| Capital expenditure in respect of properties under development | **187,565** | 35,743 |
| Capital expenditure in respect of capital injection in a private equity fund | **10,000** | – |
| | **1,177,191** | 1,160,379 |