

2015

Interim Report

NETDRAGON WEBSOFT INC.

網龍網絡有限公司

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

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MANAGEMENT DISCUSSION AND ANALYSIS

(1) OPERATION INFORMATION

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

		Three months ended			
	30 June 2015	31 March 2015	31 December 2014	30 September 2014	30 June 2014
PCU	708,000	703,000	642,000	382,000	471,000
ACU	318,000	309,000	301,000	225,000	239,000

Note: As at 30 June 2015, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online, Calibur of Spirit and other games.

The PCU for online games was approximately 708,000 for the three months ended 30 June 2015, representing a slight increase of approximately 0.7% from the three months ended 31 March 2015 and representing an increase of approximately 50.3% from the three months ended 30 June 2014.

We also recorded the ACU for online games of approximately 318,000 for the three months ended 30 June 2015, representing an increase of approximately 2.9% from the three months ended 31 March 2015 and representing an increase of approximately 33.1% from the three months ended 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL PERFORMANCE HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

The following table sets forth the comparative figures for the six months ended 30 June 2015 and 2014:

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Revenue	512,225	447,235
Cost of revenue	(81,971)	(42,972)
Gross profit	430,254	404,263
Other income and gains	56,533	88,603
Selling and marketing expenses	(70,133)	(62,720)
Administrative expenses	(225,098)	(128,520)
Development costs	(184,031)	(92,641)
Other expenses	(8,742)	(18,384)
Share of losses of associates	(5,312)	(233)
Operating (loss) profit	(6,529)	190,368
Interest income on pledged bank deposit	3,190	1,681
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and convertible preferred shares	646	(6,269)
Net gain on derivative financial instrument	—	7,463
Gain on disposal of held-for-trading investment	1,401	—
Net (loss) gain on held-for-trading investments	(10,732)	1,154
Finance costs	(1,640)	(2,249)
(Loss) profit before taxation	(13,664)	192,148
Taxation	(11,994)	(50,589)
(Loss) profit for the period	(25,658)	141,559
(Loss) profit for the period attributable to:		
– Owners of the Company	(18,374)	143,492
– Non-controlling interests	(7,284)	(1,933)
	(25,658)	141,559

MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Revenue

Revenue from online games and other business for the six months ended 30 June 2015 was approximately RMB512.2 million, representing an increase of approximately 14.5% as compared to approximately RMB447.2 million for the six months ended 30 June 2014.

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

	Six months ended 30 June			
	2015		2014	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
PRC	425,548	83.1	391,242	87.5
Other markets	86,677	16.9	55,993	12.5
	512,225	100.0	447,235	100.0

The Group's revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the six months ended 30 June 2015 was approximately RMB425.5 million, representing an increase of approximately 8.8% over the six months ended 30 June 2014.

The revenue derived from other markets for the six months ended 30 June 2015 was approximately RMB86.7 million, representing an increase of approximately 54.8% over the six months ended 30 June 2014.

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Second Quarter of 2015

Revenue

Revenue for the second quarter of 2015 was approximately RMB266.0 million, representing an increase of approximately 8.0% from the first quarter of 2015 and an increase of approximately 15.6% over the same period in 2014.

Cost of revenue

Cost of revenue for the second quarter of 2015 was approximately RMB43.0 million, representing an increase of approximately 10.1% from the first quarter of 2015 and an increase of approximately 96.2% over the same period in 2014.

Other income and gains

Other income and gains of approximately RMB30.0 million were recorded for the second quarter of 2015, representing an increase of approximately 13.0% from the first quarter of 2015 and a decrease of approximately 27.3% over the same period in 2014.

Selling and marketing expenses

Selling and marketing expenses for the second quarter of 2015 were approximately RMB39.3 million, representing an increase of approximately 27.5% from the first quarter of 2015 and an increase of approximately 17.0% over the same period in 2014.

Administrative expenses

Administrative expenses for the second quarter of 2015 were approximately RMB118.2 million, representing an increase of approximately 10.5% from the first quarter of 2015 and an increase of approximately 64.9% over the same period in 2014.

Development costs

Development costs for the second quarter of 2015 were approximately RMB96.1 million, representing an increase of approximately 9.4% from the first quarter of 2015 and an increase of approximately 86.0% over the same period in 2014.

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Second Quarter of 2015 (Cont'd)

Other expenses

Other expenses for the second quarter of 2015 were approximately RMB3.2 million, representing a decrease of approximately 42.7% from the first quarter of 2015 and a decrease of approximately 80.7% over the same period in 2014.

Net gain on derivative financial instrument

No net gain on derivative financial instrument for the second quarter of 2015 and the first quarter of 2015 was made, whereas, net gain on derivative financial instrument for the same period in 2014 was approximately RMB2.7 million.

Finance costs

Finance costs for the second quarter of 2015 were approximately RMB0.8 million, keeping a steady level as compared with the first quarter of 2015 and a decrease of approximately 27.3% over the same period in 2014.

(Loss) profit for the period

Loss for the second quarter of 2015 was approximately RMB12.6 million, representing a decrease of approximately 3.6% from the first quarter of 2015, whereas, profit for the same period of 2014 was approximately RMB63.8 million.

(Loss) profit for the period attributable to the owners of the Company

Loss for the period attributable to the owners of the Company for the second quarter of 2015 was approximately RMB7.5 million, representing a decrease of approximately 31.6% from the first quarter of 2015, whereas, profit attributable to the owners of the Company for the same period of 2014 was approximately RMB63.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW

Second Quarter of 2015 Compared to First Quarter of 2015

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

	Three months ended	
	30 June 2015 (Unaudited) RMB'000	31 March 2015 (Unaudited) RMB'000
Revenue	266,009	246,216
Cost of revenue	(42,948)	(39,023)
Gross profit	223,061	207,193
Other income and gains	29,989	26,544
Selling and marketing expenses	(39,307)	(30,826)
Administrative expenses	(118,172)	(106,926)
Development costs	(96,142)	(87,889)
Other expenses	(3,186)	(5,556)
Share of losses of associates	(1,767)	(3,545)
Operating loss	(5,524)	(1,005)
Interest income on pledged bank deposit	1,600	1,590
Exchange gain on pledged bank deposit, secured bank borrowing and convertible preferred shares	646	—
Gain on disposal of held-for-trading investment	—	1,401
Net loss on held-for-trading investments	(991)	(9,741)
Finance costs	(823)	(817)
Loss before taxation	(5,092)	(8,572)
Taxation	(7,501)	(4,493)
Loss for the period	(12,593)	(13,065)
Loss for the period attributable to:		
– Owners of the Company	(7,460)	(10,914)
– Non-controlling interests	(5,133)	(2,151)
	(12,593)	(13,065)

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Revenue

Our revenue from online games and other business for the three months ended 30 June 2015 was approximately RMB266.0 million, representing an increase of approximately 8.0% as compared to approximately RMB246.2 million for the three months ended 31 March 2015.

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

	Three months ended			
	30 June 2015		31 March 2015	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
PRC	221,373	83.2	204,175	82.9
Other markets	44,636	16.8	42,041	17.1
	266,009	100.0	246,216	100.0

The revenue derived from the PRC for the three months ended 30 June 2015 was approximately RMB221.3 million, representing an increase of approximately 8.4% as compared to approximately RMB204.2 million for the three months ended 31 March 2015. The increase in revenue derived from the PRC was mainly due to the increase in revenue from (i) Eudemons Online and Conquer Online; and (ii) education business.

The revenue derived from other markets for the three months ended 30 June 2015 was approximately RMB44.7 million, representing an increase of approximately 6.2% as compared to approximately RMB42.0 million for the three months ended 31 March 2015. The increase in revenue derived from other markets was mainly due to the increase in revenue from mobile technology and mobile marketing business.

Cost of revenue

Cost of revenue for the three months ended 30 June 2015 was approximately RMB43.0 million, representing an increase of approximately 10.1% as compared to approximately RMB39.0 million for the three months ended 31 March 2015. The increase was mainly due to the increase in (i) cost of mobile technology and mobile marketing business; (ii) server leasing fee; (iii) server depreciation; and (iv) cost of education business.

(3) FINANCIAL REVIEW (Cont'd)

Gross profit

Our gross profit for the three months ended 30 June 2015 was approximately RMB223.0 million, representing an increase of approximately 7.7% as compared to approximately RMB207.2 million for the three months ended 31 March 2015.

Gross profit margin for the three months ended 30 June 2015 was approximately 83.9%, which represented a decrease of approximately 0.3% as compared with the three months ended 31 March 2015.

Other income and gains

Other income and gains for the three months ended 30 June 2015 were approximately RMB30.0 million, representing an increase of approximately 13.0% as compared with the three months ended 31 March 2015. The increase in other income and gains was mainly due to offset of the (i) increase in interest income; (ii) increase in government grants; and (iii) decrease in exchange gain on foreign currencies.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2015 were approximately RMB39.3 million, representing an increase of approximately 27.5% as compared with the three months ended 31 March 2015. The increase in selling and marketing expenses was mainly due to increase in (i) advertising and promotion expenses; and (ii) consulting fee.

Administrative expenses

Administrative expenses increased by approximately 10.5% to approximately RMB118.2 million for the three months ended 30 June 2015 as compared with the three months ended 31 March 2015, which was mainly due to offset of the (i) decrease in staff costs; (ii) increase in legal and professional fees for merger and acquisition; (iii) decrease in low value consumables; (iv) increase in exchange loss on foreign currencies; and (v) increase in recruiting fee.

Development costs

Development costs increased by approximately 9.4% to approximately RMB96.1 million for the three months ended 30 June 2015 as compared with the three months ended 31 March 2015, which was mainly due to increase in staff costs.

(3) FINANCIAL REVIEW (Cont'd)

Other expenses

Other expenses for the three months ended 30 June 2015 were approximately RMB3.2 million, representing a decrease of approximately 42.7% as compared with three months ended 31 March 2015. The decrease in other expenses was mainly due to offset of (i) no loss on deemed disposal of associates incurred; and (ii) increase in compensation expense.

Taxation

Taxation for the three months ended 30 June 2015 was approximately RMB7.5 million, which raised by approximately 66.9% as compared with the three months ended 31 March 2015. The increase was mainly due to the increase in taxable profit.

Loss for the period attributable to the owners of the Company

Loss for the period attributable to the owners of the Company for the three months ended 30 June 2015 was approximately RMB7.5 million, representing a decrease of approximately 31.6% as compared to approximately RMB10.9 million for the three months ended 31 March 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Second Quarter of 2015 Compared to Second Quarter of 2014

The following table sets forth the comparative figures for the second quarter of 2015 and the second quarter of 2014:

	Three months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Revenue	266,009	230,144
Cost of revenue	(42,948)	(21,888)
Gross profit	223,061	208,256
Other income and gains	29,989	41,255
Selling and marketing expenses	(39,307)	(33,590)
Administrative expenses	(118,172)	(71,645)
Development costs	(96,142)	(51,687)
Other expenses	(3,186)	(16,491)
Share of losses of associates	(1,767)	(145)
Operating (loss) profit	(5,524)	75,953
Interest income on pledged bank deposit	1,600	840
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and convertible preferred shares	646	(2,106)
Net gain on derivative financial instrument	—	2,737
Net (loss) gain on held-for-trading investments	(991)	61
Finance costs	(823)	(1,132)
(Loss) profit before taxation	(5,092)	76,353
Taxation	(7,501)	(12,547)
(Loss) profit for the period	(12,593)	63,806
(Loss) profit for the period attributable to:		
– Owners of the Company	(7,460)	63,830
– Non-controlling interests	(5,133)	(24)
	(12,593)	63,806

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Revenue

Our revenue from online games and other business for the three months ended 30 June 2015 was approximately RMB266.0 million, representing an increase of approximately 15.6% as compared to approximately RMB230.1 million for the three months ended 30 June 2014.

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

	Three months ended 30 June			
	2015		2014	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
PRC	221,373	83.2	203,511	88.4
Other markets	44,636	16.8	26,633	11.6
	266,009	100.0	230,144	100.0

The revenue derived from the PRC for the three months ended 30 June 2015 was approximately RMB221.3 million, representing an increase of approximately 8.8% as compared to approximately RMB203.5 million for the three months ended 30 June 2014. The increase in revenue derived from the PRC was mainly due to offset of the (i) decrease in revenue from Eudemons Online; and (ii) increase in revenue from Calibur of Spirit.

The revenue derived from other markets for the three months ended 30 June 2015 amounted to approximately RMB44.7 million, representing an increase of approximately 67.6% as compared with the three months ended 30 June 2014. The increase in revenue derived from other markets was mainly due to the increase in revenue from (i) Conquer Online; and (ii) mobile technology and mobile marketing business. Excluded revenue derived from mobile technology and mobile marketing business acquired in the third quarter of 2014, the revenue from other markets for the three months ended 30 June 2015 increased by approximately 19.1%.

Cost of revenue

Cost of revenue for the three months ended 30 June 2015 increased by approximately 96.2% to approximately RMB43.0 million as compared with the three months ended 30 June 2014. The increase was mainly due to increase in (i) server leasing fee; (ii) server depreciation; and (iii) cost of mobile technology and mobile marketing business.

(3) FINANCIAL REVIEW (Cont'd)

Gross profit

Our gross profit for the three months ended 30 June 2015 was approximately RMB223.0 million, representing an increase of approximately 7.1% as compared to approximately RMB208.2 million for the three months ended 30 June 2014.

Gross profit margin for the three months ended 30 June 2015 was approximately 83.9%, which represented a decrease of approximately 6.6% as compared with the three months ended 30 June 2014.

Other income and gains

Other income and gains for the three months ended 30 June 2015 were approximately RMB30.0 million, representing a decrease of approximately 27.3% as compared with the three months ended 30 June 2014. The decrease was mainly due to the decrease in (i) interest income; (ii) exchange gain on foreign currencies; and (iii) server rental income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2015 increased by approximately 17.0% to approximately RMB39.3 million as compared with the three months ended 30 June 2014. The increase in selling and marketing expenses was mainly due to the increase in (i) staff costs; (ii) consulting fee; and (iii) promotion expense.

Administrative expenses

Administrative expenses increased by approximately 64.9% to approximately RMB118.2 million for the three months ended 30 June 2015 as compared with the three months ended 30 June 2014. The increase in administrative expenses was mainly due to the increase in (i) staff costs; (ii) depreciation and amortisation; (iii) exchange loss on foreign currencies; (iv) rental expense; and (v) recruiting fee.

Development costs

Development costs increased by approximately 86.0% to approximately RMB96.1 million for the three months ended 30 June 2015 as compared with the three months ended 30 June 2014. The increase in development costs was mainly caused by the increase in (i) staff costs; and (ii) outsourcing fee.

Other expenses

Other expenses for the three months ended 30 June 2015 were approximately RMB3.2 million, which represented a decrease of approximately 80.7% as compared with the three months ended 30 June 2014. The decrease in other expenses was mainly due to (i) the decrease in donation; and (ii) no trade receivable written off as uncollectible.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Net gain on derivative financial instrument

No net gain on derivative financial instrument for the three months ended 30 June 2015 was made, whereas, net gain on derivative financial instrument for the three months ended 30 June 2014 was approximately RMB2.7 million.

Taxation

Taxation for the three months ended 30 June 2015 dropped by approximately 40.2% to approximately RMB7.5 million as compared with the three months ended 30 June 2014, which was due to the decrease in taxable profit.

(Loss) profit for the period attributable to the owners of the Company

Loss for the period attributable to the owners of the Company for the three months ended 30 June 2015 was approximately RMB7.5 million, whereas, profit attributable to the owners of the Company for the three months ended 30 June 2014 was approximately RMB63.8 million.

(4) NON-GAAP FINANCIAL MEASURES

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

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

	Period ended		Three months ended		
	30 June 2015 RMB'000	30 June 2014 RMB'000	30 June 2015 RMB'000	31 March 2015 RMB'000	30 June 2014 RMB'000
Non-GAAP operating profit	9,168	204,308	1,806	7,362	83,162
Non-GAAP (loss) profit	(2,826)	153,719	(5,695)	2,869	70,615
Non-GAAP profit (loss) attributable to owners of the Company	4,547	155,652	(473)	5,020	70,639

(5) BUSINESS REVIEW AND OUTLOOK

In the first half of 2015, the Group further consolidated its market position in the gaming space and continued its effort to develop its education ecosystem.

During the period, the online game business maintain its strong growth momentum. With the launch of new gameplay and new contents, the portfolio of the Group's flagship games was further strengthened and its market share was consolidated. New games launched by the Group were well received by the players and recorded strong operating performance. The Group expect to launch two to three new mobile games to further enrich its product portfolio and expand its revenue streams during the second half of 2015.

During the period, the Group continued to focus on the investment and foundation work of its online education business to construct "hardware + software + content + cloud platform" ecosystem. The Group's ecosystem centers on the K-12 education and extends pre-school, higher, vocational, non-academic credential and lifelong education as well as enterprise training to meet a wider range of educational needs. Based in China with global visions, the Group has been promoting its self-developed education products through the Internet and the domestic & international distribution channels. The Group has also actively introduced international leading technologies, marketing channels, talents and teaching contents through overseas cooperation and merger and acquisition.

1. Games Business

(1) Online games

During the first quarter of 2015, a new gameplay of flagship game title Conquer Online (征服) was introduced, resulting in record high overseas revenue during the period. Conquer Online (征服) celebrated its anniversary in April 2015 with the launch of The Rhapsody of Ice and Fire: Taoist Ascending (道士翻身) which further consolidates the game's market share. The new expansion pack of Conquer Online (征服) has been launched in the third quarter of 2015 to satisfy the need of new gaming experience of its target players. War of Legions (王者之戰), the new expansion pack for the Group's another flagship game Eudemons Online (魔域), officially began open-beta testing in May 2015. The new expansion pack offers players a richer gaming experience.

Calibur of Spirit (英魂之刃), the Group's first MOBA micro-client game, officially began open-beta testing on Tencent's platform in January 2015 and has since rapidly recorded significant player growth thanks to its efficient micro-client login and fast paced battle mode. Calibur of Spirit (英魂之刃) generated record high monthly gross revenue of approximately RMB26 million in May 2015 and its peak concurrent users of over 400,000 users in July 2015. The Portuguese version of Calibur of Spirit (英魂之刃) began alpha testing in March 2015. The Group is currently developing multiple foreign language versions as well as a mobile game version of Calibur of Spirit (英魂之刃) to leverage the user base and brand value of this popular game.

(5) BUSINESS REVIEW AND OUTLOOK (Cont'd)

1. Games Business (Cont'd)

(1) Online games (Cont'd)

Regarding new games, 3D action strategy game Tiger Knight (虎豹騎), which vividly reproduces and realistic legendary army battle scenes with visual effects, has won praise from players. During its research and development phase, Tiger Knight (虎豹騎) was among the games listed on Sina's "China Games Weight Rank", and was awarded as one of "Top Online Games of the Year" and "New Games of the Year". In the third quarter of 2015, the Chinese version of Tiger Knight (虎豹騎) will begin a new round of alpha testing and is expected for the official launch by the end of 2015.

(2) Mobile games

Eudemons Online Pocket Version* (魔域口袋版) has recorded satisfactory operational metrics since its open-beta testing in January 2015 and its traditional Chinese version was formally released in Hong Kong and Taiwan in April 2015. In June 2015, Eudemons Online Pocket Version* (魔域口袋版) released the BOSS version on App Store that was quickly ranked among the top 10 paid mobile apps on the App Store with its six brand new challenging modes sparking great enthusiasm of players. The first expansion pack of Eudemons Online Pocket Version* (魔域口袋版) began alpha-testing in August 2015, and began official open-beta testing in the third quarter of 2015. The new expansion pack accelerated growth of the game while maintaining higher user stickiness. Looking forward, the Group plans to expand overseas markets for the successful Eudemons Online Pocket Version* (魔域口袋版). Another mobile game, the Android version of 2.5D martial arts mobile role-playing game Blade & Sword* (最江湖) began its all channels testing in June 2015 with plans to formally launch by the end of 2015.

Meanwhile, the Group continued to invest in the pipeline of overseas version of mobile games. The overseas version of the Group's first person shooting game and a mobile card game Dead Union* (絕對火力之危機邊緣) and will start their alpha testing during the second half of 2015 and are expected to be officially launched during the fourth quarter of 2015.

* For identification purpose only

(5) BUSINESS REVIEW AND OUTLOOK (Cont'd)

2. Online and Mobile Education

In the first half of 2015, leveraging on favourable industry policies, the online and mobile education business of the Group continued its strong growth momentum in 2014 and recorded outstanding progress in terms of products, pedagogy integration, content, market, financing and M&A.

(1) Products and contents

The Group made significant progress in building a dynamic and engaging educational ecosystem that will create a fun and effective learning experience and enable a seamless connection between teachers, students and parents. The Group is on the verge of completing the final stage of the development for its education product targeted for first-phase commercialization.

On the hardware front, the Group's "101 student tablet" has gone through several internal design iterations and is ready for large scale deployment. On the software front, the Group's initial product will center around its collaborative classroom product which aims to provide a revolutionary teaching and learning experience within the classroom. Integrated within the ecosystem is an educational content repository that covers primary and secondary school curriculum and all major academic subjects, including both licensed and self-developed contents. The Group's Instant Messaging Platform has gone through a vigorous development cycle and will be integrated within the Group's other software modules to ensure a seamless user experience.

(2) Go to Market

The Group's market penetration strategy focuses on forming a large scale active user base by combining B2B and online B2C models. While B2B model is executed through channel building and is a vital step for penetrating into new regional markets, the Group will leverage its deep internet B2C expertise to scale up users and monetization through online B2C model. As part of its efforts in the B2B model, the Group has built up a national distribution network and has established a sales team covering 6 major regions and over 20 provinces in China.

The Group expects to ramp up commercialization efforts within the next several months in line with start of the new school year, and targets to achieve sales coverage in over 15 cities. To ensure a smooth product and service roll-out, this first-phase commercialization will be controlled to cover initially 500-1,000 classrooms by the end of 2015.

(5) BUSINESS REVIEW AND OUTLOOK (Cont'd)

2. Online and Mobile Education (Cont'd)

(3) Merger and Acquisition (M&A)

The Group continued to build traction with its M&A initiatives during the first half of 2015. In June 2015, the Group signed a sale and purchase agreement to conditionally acquire a 100% equity interest in ChiVox Co., Ltd ("ChiVox"). The Group is on track to complete this acquisition by September 2015. With this acquisition, the Group will integrate ChiVox's best-in-class intelligent voice and speech technology into its language assessment platform in the area of language assessment, which will create a very high entry barrier to competing education platforms. In July 2015, the Group announced its intention to make a recommended offer for the entire issued and to be issued share capital of Promethean World Plc ("Promethean") for a total consideration of £84.8 million (equivalent to USD131.5 million). Promethean is a global leader in interactive learning technology with a substantial user base and a well-known brand with the reputation for providing high quality education products.

(4) Fundraising

In February 2015, the Group's online education subsidiary acquired Series A equity fundraising round of USD52.5 million led by world-renowned investors at a fully-diluted post-money valuation of USD477.5 million.

3. Conclusion

In the first half of 2015, while strengthening its position in the gaming market, the Group steadily pushed forward the development of the online education platform. Both the online games and mobile games businesses continued strong growth with the operating indicators showed an upward trend. The Group also focused on creating and implementing a comprehensive online ecological education system. The Group is confident about the recent development and long-term prospects of the education business.

With respect to online games, as the Group continued to optimize its game portfolio and launched new gameplay and new content for popular games. With the deep excavation of the value of flagship games by the Group, the advantages of the brand strategy have been extended and the market position and player loyalty have been consolidated. With respect to new games, Calibur of Spirit (英魂之刃), a MOBA micro-client game developed in-house by the Group, recorded significant user growth and remarkable operating indicators since the official beta testing in January 2015. With the launch of further promotional activities, operating indicators of the game are expected to further improve. With respect to mobile games, Eudemons Online Pocket Version* (魔域口袋版), recorded strong performance immediately after the official beta testing began in January 2015 and is believed to become another revenue generator of the Group in the future. In the second half of 2015, the Group will launch a variety of mobile games to further enrich its product portfolio.

* For identification purpose only

(5) BUSINESS REVIEW AND OUTLOOK (Cont'd)

3. Conclusion (Cont'd)

The strategic focus of the Group remained on the online education business. The Group has been focusing on developing products catering to the demand of K-12 teachers and students and will expand to cover the lifelong learning sector. The Group plans to penetrate the market through comprehensive education solutions which are expected to be officially launched in the second half of 2015. Leveraging on the Group's ability to design integrated Internet and mobile products and its in-depth understanding of the education industry, the learning process was made simple and effective, satisfying the concern and demand of a wider range of people for education. In the future, the Group will target the global market, seek cooperation opportunities and create a better ecological environment for the development of online education.

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

The "Haixi Animation Creativity City" is a project initiated by Changle Western Taiwan Straits Creative Valley (長樂海西創意谷) with the Group providing construction and planning services. It is a key project in Fujian province, and also a key project for the cultural creativity industry in the Linkonggang Economic Zone of Fuzhou City. The Project covers a more integrated industrial chain of animation creativity from research and development in animation to exchange, animation derivatives, online and mobile education application. During the period under review, the progress of each phase was as follows:

- I Phase I covers an area of 246.8 mu. It is used by the Group for research and development, exchange and quality control development. Currently, several main buildings have been constructed, including the Group's office building and Pentagonal Building* (五角大樓), with a gross floor area of approximately 33,000 square meters. Operations and the construction of two new steel buildings are currently underway.
- II Phase II covers an area of 296.5 mu. This is the core animation research center of the Group. After two years of construction, the main building of the Group's landmark building, Enterprise* (企業號), was officially put into operation on 18 May 2014. Other ancillary buildings are under construction within the area. Most office and ancillary buildings are currently underway.
- III Phase III covers an area of approximately 600.1 mu of which 345 mu has been earmarked for online education industrial zone, the commissioned design and project procedures are undergoing simultaneously, 105 mu has been slated for commercial and residential use, 48.8 mu was designated for apartments for senior management. Nine executives dormitory buildings have been largely completed, and the remaining three buildings will be started at a later stage. The remaining 101.3 mu will be used for future mobile game business research and development purpose.

Haixi Animation Creativity City's land grant application is currently being processed and its scheme is being designed. Part of the commercial and residential zone of Haixi Animation Creativity City, covering an area of 105 mu was designated for commercial and residential use of Changle Western Taiwan Straits Creative Valley. Residential units will be sold to employees following the completion of the project.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW AND OUTLOOK (Cont'd)

Project in Haixi Animation Creativity City (the "Project") (Cont'd)

- IV The Group also places great emphasis on the development of education segment. It is planning to construct a new Changle campus for Fuzhou Software Technology Vocational College, which has a student enrolment of approximately 8,000 and occupies an area of 536.2 mu. Currently, the land is under batch approval procedures from Provincial Department, the project will form an industry cluster effect together with the three projects in the park by the way of "learning supported by production, research facilitated by production, learning combined with production" to boost the emergence and development of Haixi animation creation industry.
- V Another real estate development project occupying an area of 199.9 mu has been stated for commercial and residential use. This project won the bid in 2014 and has completed temporary construction fence and preliminary site preparation. This project is currently under planning.

The construction of the Project will help form a full-scale high-tech industry cluster and animation industry chain for "technological research and development, application and production" in the area, making it a new town with the most sophisticated technology and the most ecology-friendly industry, a creative new town with the greatest potential, and a new innovative culture zone along the south-eastern coast in China.

Corporate Milestones and Awards for the first half of 2015

Year 2015

Corporate Milestones/Recognitions

- | | |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| April | <ul style="list-style-type: none">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 "Taxation - 2014 Top 100 Fujian Provincial Private Enterprises"* 「福建省2014年度民營企業納稅百強」 jointly organized by Fujian Provincial State Tax Bureau and Fujian Local Tax Bureau 「福建省國家稅務局、福建省地方稅務局」 |
| May | <ul style="list-style-type: none">NetDragon (Fujian) was honoured as the "Top 30 Cultural Enterprise in the PRC at the Seventh Presentation Ceremony"* 「第七屆文化企業三十強」 jointly organized by the Guang Ming Daily (光明日報) and Economic Daily (經濟日報) |

* For identification purpose only

(6) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2015, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB3,142.9 million (31 December 2014: RMB3,273.2 million), out of which approximately RMB236.6 million (31 December 2014: RMB236.8 million) has been pledged to bank to secure bank borrowing.

As at 30 June 2015, the Group had net current assets of approximately RMB2,701.6 million as compared with approximately RMB3,148.0 million as at 31 December 2014.

(7) GEARING RATIO

The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.05 (31 December 2014: 0.05). As at 30 June 2015, total bank borrowing of the Group amounted to approximately RMB236.6 million (31 December 2014: RMB236.8 million) was floating-rate loan.

(8) CAPITAL STRUCTURE

As at 30 June 2015, the Group's total equity amounted to approximately RMB4,463.3 million (31 December 2014: RMB4,617.4 million).

(9) FOREIGN CURRENCY RISKS

The Group operates mainly in the PRC. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB. However, the Group also has operations in Hong Kong, the United States of America and Indonesia and the business transactions conducted there during the period were mainly denominated and settled in HKD, USD and IDR 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 currency mismatch in our operational cash flows and we are not exposed to any significant foreign currency exchange risk in our operation.

MANAGEMENT DISCUSSION AND ANALYSIS

(10) CREDIT RISKS

As at 30 June 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

(11) 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.

(12) STAFF INFORMATION

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

	At 30 June 2015	At 31 March 2015	At 30 June 2014
Research and development	2,093	2,061	1,354
Selling and marketing	721	677	545
Accounting, finance and general administration	725	640	832
Total	3,539	3,378	2,731

(13) PERFORMANCE EVALUATION

HUMAN RESOURCES

During the period under review, the Group achieved considerable improvement in terms of work at the human resources aspect.

- I. Employment qualification certification was commenced. In order to align with the need in the strategic transformation of the Group, adaptation of the Group's products and the needs in enhancement of talents, the Group commenced the "Employment Qualification Certification" jointly with external consultants and advisors. The professional headcount employment qualification certification was optimized and perfected. On the base of the employment qualification, career development path for the staff was designed so as to guide the career development of staff. This will allow better development of talent breeding, more effective motivation of staff for guiding the growth of staff.
- II. In order to facilitate the Group to transform to competitive projects, competitive projects appraisal was implemented since 2015. The duties and appraisal powers of the project development team were specified. The existing performance appraisal method was improved, and the communication costs were reduced to a certain extent. The execution efficiency of the organization was improved to support the transformation of the product management model of the Group. With the enhancement of the performance appraisal method, the efficiency in the execution capability of the organization was improved.
- III. The continuous improvement of the existing remuneration and welfare of the Group can enhance the competitiveness of the Group in the market. This will provide strong support to the Group for soliciting and retaining talents. Additional measures were adopted to provide the Group support in motivating talents for pursuing excellence.

(14) STAFF TRAINING

Introduction of NetDragon University

NetDragon University is a base for the Group to breed its management talent and technology talent. As a powerful supporting part and an important part to the overall strategy of the Group, NetDragon University is dedicated to provide professional and systematic training services to the staff of the Group. Through effective organization and learning, technology and management talents of high standards will be graduated from the university sessions after sessions. The core competitiveness of the Group will continue to enhance.

Achievements for the first half of 2015

In 2015, in order to align with the Group tapping into online education, apart from the business model primarily based on course training, workshop and certification, the form of design salon was adopted to promote the business. Management training, technology training and exploration training under the original training business were further developed.

As of to-date, there were a total of nearly 100 training sessions, workshops and design salons organized for the participation by all staff of the Company. There were about 10 sessions of certification. Total number of people participated was almost 1,700.

MANAGEMENT DISCUSSION AND ANALYSIS

(14) STAFF TRAINING (Cont'd)

As to "Certification"

In 2015, the Group continued to proceed with the safety technology certification, and further classified into monthly regular certification and department customization. During the period under review, seven examinations for the safety technology certification were held in 2015. There were almost 150 people in total participating the examinations for the safety technology certification, and the passing rate was over 60%.

As to "Training Courses"

With respect to the promotion of management applications, after the comprehensive upgrade of the management courses in 2015, the Group developed online courses for management at base level with the real cases met in the working environment through cooperation with external consulting firms. Interviews were conducted comprehensively with the management cadres of the Group's major business units at base level. The needs of the target student and typical workplace scenario were analyzed and determined. The syllabus was finalized and management for online course development theory V1.0 was consolidated. It is expected that the rapid replication experiences can be successful so that the development of micro courses can be completed. This will practically assist the management at base level to solve the practical issues faced during interviews.

In the meantime, with respect to the breeding of middle to senior management staff, the management tool box developed jointly with external consultant in 2014 was finalized in 2015 as strategies targeting at breeding middle level management so as to enhance leadership.

With respect to commencing the promotion of technology type training, in aligning with the Group's transformation to online education aspect, NetDragon University began online education certification in 2015. Micro courses on the fundamental knowledge about online education industry were developed. Online education participants' certifications were conducted online in order to assist the staff to understand the mission of the Group in education business. Benchmark on knowledge type micro courses were exported.

Apart from covering online education participants, the Group also created two series of micro courses on two department role units. It is aimed that through the project talents in designing micro courses will be breed and the design theory for micro courses will be enhanced. These courses were further promoted and applied throughout the Group, which facilitated to rationalize all departments in understanding and learning the information.

With respect to accelerating the further integration of the team, regular team training were commenced according to group strategies and departmental requirements. The team was further enhanced and additional training were customized in depth for the team. Based on the unique geographical location and facility advantages of Haixi Animation City, overseas expansion projects that can further assist to develop the businesses of the Group will be gradually conducted through research and development.

In order to adapt to the mobile Internet trend, and better satisfy the learning needs and usage habits of staff age of twenties, the Group launched "NetDragon Study Partner" APP in 2015. Staff can use spare time to conduct online learning. The information that the Group wish the staff to know (such as corporate culture, rules and regulations, and other things necessary) were compiled as recent hot topics nowadays. They were put together into an interesting Q & A section. More than 10 sessions of "mental challenge" games were held so as to achieve learning games in the form of tests.

(15) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(16) INTERIM DIVIDEND

On 27 August 2015, the Board has resolved to declare an interim dividend of HKD0.10 per share for the six months ended 30 June 2015 (2014: HKD0.20 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 15 September 2015. It is expected that the interim dividend will be distributed on or about 30 September 2015.

(17) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 September 2015 to Thursday, 17 September 2015, 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 2015, 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 Monday, 14 September 2015.

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

As at 30 June 2015, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through a controlled corporation	254,053,257 (L)	51.11%
Liu Dejian <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and beneficiary of a trust	255,652,057 (L)	51.43%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	254,053,257 (L)	51.11%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Chen Hongzhan <i>(Note 4)</i>	The Company	Beneficial owner and beneficiary of a trust	11,197,019 (L)	2.25%
Chao Guowei, Charles <i>(Note 5)</i>	The Company	Beneficial owner	818,000 (L)	0.16%
Lee Kwan Hung <i>(Note 6)</i>	The Company	Beneficial owner	1,146,019 (L)	0.23%
Liu Sai Keung, Thomas <i>(Note 7)</i>	The Company	Beneficial owner	935,019 (L)	0.19%

OTHER INFORMATION

Notes:

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.36% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 38.44% of the issued voting shares of the Company. Liu Dejian is also interested in 0.42% of the issued voting shares of the Company which is represented by beneficial interest of 1,798,800 shares, a beneficiary of a trust of 197,019 shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.

Liu Luyuan is interested in 5.68% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 26,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.44% and 3.83%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.80% of the issued voting shares of the Company. Zheng Hui is also interested in 0.30% of the issued shares of the Company which is represented by beneficial interest of 1,411,800 shares and the rest being underlying shares of 85,200 share options granted by the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.10% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian and Liu Luyuan, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian).
4. Chen Hongzhan is interested in 2.25% of the issued voting shares of the Company which is represented by personal interest of 71,000 shares, interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.
5. Chao Guowei, Charles is interested in 0.16% of the issued voting shares of the Company which is represented by personal interest of 579,500 shares and the rest being the underlying shares of interest of 238,500 shares options granted by the Company.
6. Lee Kwan Hung is interested in 0.23% of the issued voting shares of the Company which is represented by beneficial interest of 428,019 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.
7. Liu Sai Keung, Thomas is interested in 0.19% of the issued voting shares of the Company which is represented by beneficial interest of 117,019 shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2015, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	38.44%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320 (L)	15.76%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320 (L)	15.76%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095 (L)	14.79%
First Elite Group Limited <i>(Note 3)</i>	The Company	Beneficial owner and through controlled corporation	26,463,011 (L)	5.32%
Jardine PTC Limited <i>(Note 3)</i>	The Company	Trustee	26,463,011 (L)	5.32%

OTHER INFORMATION

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.19%, 10.46%, 2.14% and 0.97% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. First Elite Group Limited is controlled by Jardine PTC Limited, which held on trust for Richmedia Holdings Limited.

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 2015.

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the "Main Board Share Option Scheme") to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 30 June 2015 are as follows:

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at 1 January 2015	Number of share options			As at 30 June 2015
				Granted	Exercised	Lapsed	
Executive Directors							
Liu Dejian	22.07.2011	4.60	156,200	—	71,000	—	85,200
Liu Luyuan	07.12.2009	4.33	1,400,000	—	—	—	1,400,000
	22.07.2011	4.60	284,000	—	—	—	284,000
Zheng Hui	22.07.2011	4.60	156,200	—	71,000	—	85,200
Chen Hongzhan	22.07.2011	4.60	156,200	—	71,000	—	85,200
Independent non-executive Directors							
Chao Guowei, Charles	22.07.2011	4.60	200,000	—	200,000	—	0
	23.04.2012	5.74	300,000	—	300,000	—	0
	04.12.2013	15.72	318,000	—	79,500	—	238,500
Lee Kwan Hung	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	200,000	—	—	—	200,000
	04.12.2013	15.72	318,000	—	—	—	318,000
Liu Sai Keung, Thomas	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
Others							
Employees	07.12.2009	4.33	80,000	—	80,000	—	0
	28.04.2011	4.80	5,562,594	—	2,376,072	150,900	3,035,622
	22.07.2011	4.60	277,238	—	84,000	—	193,238
	23.04.2012	5.74	1,171,217	—	301,755	21,325	848,137
	06.07.2012	6.53	473,238	—	14,250	—	458,988
	12.09.2012	7.20	53,250	—	—	—	53,250
	16.01.2013	11.164	575,350	—	101,775	—	473,575
	25.04.2014	14.66	556,000	—	—	—	556,000
	11.05.2015	27.75	—	—	251,000	—	251,000
Total			13,255,487	251,000	3,750,352	172,225	9,583,910

OTHER INFORMATION

Notes:

1. On 11 May 2015, 251,000 share options were granted to the employees of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 11 May 2015 (the trading day on the grant of the share options) was HKD27.75.
2. During the period under review, 792,500 share options were exercised by Directors of the Company.

SHARE AWARD SCHEME

The Company

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

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

On 30 June 2015, 475,451 awarded shares granted to a number of selected participants were outstanding. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents 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 237,725 vested awarded shares in 2015, a total of 118,212 awarded shares were vested by the Directors.

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

Best Assistant Education Online Limited ("Best Assistant")

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

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

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 2015, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into 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 US\$52,500,000 (equivalent to approximately HK\$409.5 million). The Series A Agreement and the issue and allotment of the Series A Preferred Shares were completed on 13 February 2015. The Series A Preferred Shares represented 100% of all issued preferred shares of Best Assistant and accounted for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares.

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

As at 30 June 2015, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.



VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF PROMETHEAN WORLD PLC

On 10 July 2015, Digital Train Limited ("Digital Train"), an indirect non wholly-owned subsidiary of the Company announced a firm intention to make a recommended offer for the entire issued and to be issued share capital of Promethean World Plc ("Promethean"), a company incorporated in England and Wales with registered number 07118000 and listed on the main market of the London Stock Exchange, pursuant to Rule 2.7 of the City Code on Takeovers and Mergers issued by the Panel on Takeovers and Mergers at a maximum aggregate consideration of £84.8 million (equivalent to approximately HK\$1,019.6 million) being payable by the Group (the "Proposed Acquisition"). Promethean is listed on the London Stock Exchange and is a global leader in the interactive learning technology market. In connection with the making of the said offer, the Company, Digital Train and Promethean entered into a cooperation agreement on 10 July 2015 which sets out certain obligations and commitments in relation to the implementation of the Proposed Acquisition.

The Proposed Acquisition constitutes a very substantial acquisition of the Company and is subject to the satisfaction of a number of conditions including but not limited to: (i) receiving valid acceptances of not less than 90% in nominal value in aggregate of Promethean Shares to which the said offer relates and of the voting rights attached to those shares; and (ii) the approval of shareholders of the Company at an extraordinary general meeting of the Company to approve, implement and effect the said offer and the Proposed Acquisition. For details of the Proposed Acquisition, the conditions of the said offer and the said cooperation agreement, please refer to the announcements of the Company dated 9 June 2015, 17 June 2015, 10 July 2015 and 28 August 2015 and the circular of the Company dated 31 August 2015.

The offer documents and forms of acceptance have been sent to the Promethean shareholders on 6 August 2015 and as at 1 p.m. (London time) on 27 August 2015 the Company and Digital Train have received valid acceptances of the Offer in respect of 180,603,109 Promethean Shares, representing approximately 88.87% of the existing issued ordinary share capital of Promethean. The Offer, which remains subject to the terms and conditions set out in the offer document is being extended and will remain for acceptance until the next closing date, which will be 1 p.m. (London time) on 15 September 2015. For details, please refer to the announcement of the Company dated 6 August 2015 and 28 August 2015 and further announcements of the Company.

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 2015.

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

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

On 17 February 2015, Mr. Lee Kwan Hung was appointed as an independent non-executive director of Red Star Macalline Group Corporation Ltd. and Red Star Macalline Group Corporation Ltd. became a listed company on the Hong Kong Stock Exchange on 26 June 2015.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

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 2015 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2015, the Company bought back a total of 1,870,000 shares on the Stock Exchange at an aggregate consideration of HKD25,323,860 before expenses.

Details of the shares buy-backs are as follows:

Month of shares bought back	Number of ordinary shares Bought back	Price per share		Aggregate consideration paid
		Highest	Lowest	
		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
January 2015	<u>1,870,000</u>	<u>13.80</u>	<u>12.90</u>	<u>25,323,860</u>

By Order of the Board

NetDragon Websoft Inc.

Liu Dejian

Chairman

Hong Kong, 27 August 2015

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT INC.

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Inc. (the “Company”) and its subsidiaries set out on pages 39 to 70, which comprises the condensed consolidated statement of financial position as of 30 June 2015, 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 Main Board Listing 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

27 August 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
	<i>NOTES</i>	RMB'000	<i>RMB'000</i>
Revenue	4	512,225	447,235
Cost of revenue		(81,971)	(42,972)
Gross profit		430,254	404,263
Other income and gains	4	56,533	88,603
Selling and marketing expenses		(70,133)	(62,720)
Administrative expenses		(225,098)	(128,520)
Development costs		(184,031)	(92,641)
Other expenses		(8,742)	(18,384)
Share of losses of associates		(5,312)	(233)
Operating (loss) profit		(6,529)	190,368
Interest income on pledged bank deposit		3,190	1,681
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and convertible preferred shares		646	(6,269)
Net gain on derivative financial instrument		—	7,463
Gain on disposal of held-for-trading investment		1,401	—
Net (loss) gain on held-for-trading investments		(10,732)	1,154
Finance costs		(1,640)	(2,249)
(Loss) profit before taxation		(13,664)	192,148
Taxation	6	(11,994)	(50,589)
(Loss) profit for the period	7	(25,658)	141,559
Other comprehensive (expense) income for the period, net of income tax			
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss		(129)	582
Total comprehensive (expense) income for the period		(25,787)	142,141

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

Six months ended 30 June

	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
(Loss) profit for the period attributable to:		
– Owners of the Company	(18,374)	143,492
– Non-controlling interests	(7,284)	(1,933)
	(25,658)	141,559
Total comprehensive (expense) income attributable to:		
– Owners of the Company	(18,503)	144,074
– Non-controlling interests	(7,284)	(1,933)
	(25,787)	142,141
	RMB cents	RMB cents
(Loss) earnings per share		
– Basic	(3.72)	28.24
– Diluted	N/A	28.00

NOTE

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	NOTES	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	1,084,365	822,704
Prepaid lease payments	11	440,001	378,673
Intangible assets	12	137,770	141,254
Interests in associates	13	23,483	28,795
Available-for-sale investments		5,000	5,000
Loan receivables		19,736	18,327
Deposits made for acquisition of property, plant and equipment		11,443	35,967
Goodwill	14	40,013	40,013
Deferred tax assets		54	54
		1,761,865	1,470,787
Current assets			
Prepaid lease payments	11	2,732	2,708
Loan receivables		2,373	1,578
Trade receivables	15	68,420	51,072
Amounts due from customers for contract work		11,585	7,252
Other receivables, prepayments and deposits	16	94,584	210,098
Amount due from a related company	17	1,704	1,704
Amounts due from associates	17	856	367
Held-for-trading investments	18	195,396	211,584
Pledged bank deposit	19	236,596	236,805
Bank deposits		1,463,502	1,999,644
Bank balances and cash		1,442,821	1,036,788
		3,520,569	3,759,600

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	NOTES	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Current liabilities			
Trade and other payables	20	197,569	209,214
Amounts due to customers for contract work		1,016	424
Deferred income		24,187	25,595
Amount due to a related company	21	1,957	1,891
Amount due to an associate	21	677	8
Convertible preferred shares	22	259,828	—
Secured bank borrowing	19	236,596	236,805
Income tax payable		97,182	137,648
		819,012	611,585
Net current assets			
		2,701,557	3,148,015
Total assets less current liabilities			
		4,463,422	4,618,802
Non-current liabilities			
Other payables	23	—	1,283
Deferred tax liabilities		116	116
		116	1,399
Net assets			
		4,463,306	4,617,403
Capital and reserves			
Share capital	24	36,687	36,943
Share premium and reserves		4,380,429	4,529,971
Equity attributable to owners of the Company		4,417,116	4,566,914
Non-controlling interests		46,190	50,489
		4,463,306	4,617,403

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company													Non-controlling interests	Total equity
	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	Retained profits	Total		
	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 2014	37,664	1,036,480	4,139	-	10,045	202,885	79,977	673	(5,780)	29,777	(59,309)	3,278,591	4,615,142	7,736	4,622,878
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	143,492	143,492	(1,933)	141,559
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	582	-	582	-	582
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	582	143,492	144,074	(1,933)	142,141
Repurchase and cancellation of shares	(176)	(27,609)	176	-	-	-	-	-	-	-	-	(176)	(27,785)	-	(27,785)
Shares issued upon exercise of share options	150	13,476	-	-	-	-	-	-	(4,437)	-	-	9,189	-	-	9,189
Recognition of equitysettled share-based payments	-	-	-	-	-	-	-	-	-	6,273	-	-	6,273	-	6,273
Awarded shares vested to employees	-	-	-	-	-	-	-	-	1,445	(2,803)	-	1,358	-	-	-
Return of capital to non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,990)	(3,990)
Contributors from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	300	300
Acquisition of nonwholly owned subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	58	58
Final dividend for 2013 paid	-	-	-	-	-	-	(79,977)	-	-	-	-	(653)	(80,330)	-	(80,330)
Interim dividend for 2014	-	-	-	-	-	-	80,751	-	-	-	-	(80,751)	-	-	-
At 30 June 2014 (unaudited)	37,638	1,022,347	4,315	-	10,045	202,885	80,751	673	(4,335)	28,810	(58,727)	3,342,161	4,666,563	2,171	4,668,734
At 1 January 2015	36,943	930,286	5,223	38,755	10,045	253,699	78,865	673	(4,335)	31,872	(59,349)	3,244,237	4,566,914	50,489	4,617,403
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	(18,374)	(18,374)	(7,284)	(25,658)
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	-	-	(129)	-	(129)	-	(129)
Total comprehensive expense for the period	-	-	-	-	-	-	-	-	-	-	(129)	(18,374)	(18,503)	(7,284)	(25,787)
Repurchase and cancellation of shares	(486)	(70,095)	486	-	-	-	-	-	-	-	-	(486)	(70,581)	-	(70,581)
Shares issued upon exercise of share options	230	22,364	-	-	-	-	-	-	(6,833)	-	-	15,761	-	-	15,761
Recognition of equitysettled share-based payments	-	-	-	-	-	-	-	-	-	2,035	-	2,035	-	-	2,035
Awarded shares vested to employees	-	-	-	-	-	-	-	-	1,082	(2,178)	-	1,096	-	-	-
Deemed disposal of associates	-	-	-	-	-	-	-	-	-	-	-	-	-	3,353	3,353
Dividend paid to non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(239)	(239)
Acquisition of additional equity interests from non-controlling interests	-	-	-	(115)	-	-	-	-	-	-	-	-	(115)	(113)	(228)
Transfer upon deregistration of a subsidiary	-	-	-	-	(10)	(69)	-	-	-	-	-	69	(10)	(16)	(26)
Final dividend for 2014 paid	-	-	-	-	-	-	(78,865)	-	-	-	-	480	(78,385)	-	(78,385)
Interim dividend for 2015	-	-	-	-	-	-	39,197	-	-	-	-	(39,197)	-	-	-
At 30 June 2015 (unaudited)	36,687	882,555	5,709	38,640	10,035	253,630	39,197	673	(3,253)	24,896	(59,478)	3,187,825	4,417,116	46,190	4,463,306

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
NET CASH USED IN OPERATING ACTIVITIES	<i>NOTE</i>	(31,187)	(315,442)
INVESTING ACTIVITIES			
Acquisitions of subsidiaries	26	—	(5,243)
Acquisitions of investments in associates		—	(4,900)
Purchase of property, plant and equipment		(311,382)	(172,723)
Purchase of prepaid lease payments		(38,158)	(195,287)
Purchase of intangible assets		(5,640)	(614)
Proceeds from disposal of subsidiaries		61,396	—
Payment for deposits of property, plant and equipment		(3,791)	(13,748)
Placement of bank deposits		(1,304,752)	(1,967,950)
Withdrawal of bank deposits		1,840,151	2,348,916
Other investing activities		72,608	28,298
NET CASH FROM INVESTING ACTIVITIES		310,432	16,749
FINANCING ACTIVITIES			
Contribution from a non-controlling shareholder		—	300
Proceeds from issue of convertible preferred shares		260,359	—
Proceeds from shares issued upon exercise of share options		15,761	9,189
Dividends paid		(78,385)	(80,330)
Payment for repurchase of shares		(70,581)	(27,785)
Other financing activities		(265)	(4,848)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		126,889	(103,474)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		406,134	(402,167)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		1,036,788	1,304,355
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(101)	(10,938)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH		1,442,821	891,250

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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") on 24 June 2008. 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 Unit 2209, 22nd Floor, Shun Tak Centre, West Tower, 200 Connaught Road Central, 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 online games development, including games design, programming and graphics and online games operation, education business and mobile technology and mobile 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, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Financial liabilities at FVTPL

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'Net gain or loss on other financial liability' line item. Fair value is determined in the manner described in note 28.

Convertible preferred shares

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

4. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited and restated) RMB'000
Revenue		
Online game revenue	463,221	431,539
Education	23,449	15,696
Mobile technology and mobile marketing	25,555	—
	<u>512,225</u>	<u>447,235</u>
Other income and gains		
Government grants <i>(Note)</i>	10,845	9,589
Interest income	37,962	45,683
Net foreign exchange gain	—	24,510
Game implementation income	6,933	4,949
Rental income, net of negligible outgoing expenses	453	249
Server rental income	215	2,932
Others	125	691
	<u>56,533</u>	<u>88,603</u>

Note: Government grants were received from the government of the People's Republic of China (the "PRC") 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 2015

5. SEGMENT INFORMATION

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

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

Six months ended 30 June 2015

	Online game (Unaudited) RMB'000	Education (Unaudited) RMB'000	Mobile technology and mobile marketing (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	<u>463,221</u>	<u>23,449</u>	<u>25,555</u>	<u>512,225</u>
Segment profit (loss)	<u>107,656</u>	<u>(57,059)</u>	<u>(6,905)</u>	<u>43,692</u>
Unallocated income and gains				<u>38,540</u>
Unallocated expenses				<u>(95,896)</u>
Loss before taxation				<u>(13,664)</u>

Six months ended 30 June 2014 (Restated)

	Online game (Unaudited) RMB'000	Education (Unaudited) RMB'000	Mobile technology and mobile marketing (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	<u>431,539</u>	<u>15,696</u>	<u>—</u>	<u>447,235</u>
Segment profit (loss)	<u>196,141</u>	<u>(5,839)</u>	<u>—</u>	<u>190,302</u>
Unallocated income and gains				<u>64,864</u>
Unallocated expenses				<u>(63,018)</u>
Profit before taxation				<u>192,148</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

5. SEGMENT INFORMATION (Cont'd)

The accounting policies of the operating segment are the same as the Group's accounting policies. Segment (loss) profit represents the profit earned or loss incurred by the segment whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, net gain on derivative financial instrument, income tax expenses, and unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	30 June 2015	31 December 2014
	(Unaudited)	(Audited and restated)
	RMB'000	RMB'000
Online game	2,754,135	3,383,304
Education	977,708	673,972
Mobile technology and mobile marketing	191,715	207,808
Total segment assets	3,923,558	4,265,084
Unallocated	1,358,876	965,303
	5,282,434	5,230,387

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

6. TAXATION

The tax charge comprises:

Hong Kong Profits Tax

The PRC Enterprise Income Tax ("EIT")

Taxation in other jurisdiction

Six months ended 30 June

2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
2,939	3,860
8,972	46,698
83	31
11,994	50,589

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2015 and 30 June 2014.

PRC EIT is calculated at the applicable prevailing tax rates in the PRC.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

7. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging (crediting):

Staff costs:

Directors' emoluments

Other staff costs

Salaries and other benefits

Contributions to retirement benefits schemes

Share-based payments expense

Amortisation of intangible assets

Release of prepaid lease payments (included in administrative expenses)

Depreciation of property, plant and equipment

Total depreciation and amortisation

Amount written off as uncollectible

Operating lease rentals in respect of:

– rented premises

– computer equipment

Loss on disposal of property, plant and equipment

Loss on deemed disposal of associates

Net foreign exchange loss (gain)

Six months ended 30 June

2015	2014
(Unaudited)	(Unaudited)
RMB'000	RMB'000
2,747	3,844
262,664	151,834
28,586	12,153
3,581	10,799
297,578	178,630
9,125	88
1,445	1,128
52,216	27,777
62,786	28,993
–	5,208
20,883	5,833
28,788	17,162
309	199
3,353	–
3,963	(18,241)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

8. DIVIDENDS

On 15 June 2015, a dividend of Hong Kong dollars ("HKD") 0.20 per share (2014: HKD0.20 per share) was paid to shareholders as the final dividend for 2014. The aggregated amount of the final dividend paid in current interim period amounted to approximately RMB78,385,000 (2014: RMB80,330,000).

The directors have determined that an interim dividend of HKD0.10 per share (2014: HKD0.20 per share), amounting to approximately HKD49,704,000 (equivalent to approximately RMB39,197,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 15 September 2015.

9. (LOSS) EARNINGS PER SHARE

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

(Loss) earnings for the purpose of basic and diluted (loss) earnings per share:
– (loss) profit for the period attributable to the owners of the Company

Six months ended 30 June

2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
(18,374)	143,492

Weighted average number of shares in issue during the period, for the purpose of basic (loss) earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)

Effect of dilutive potential shares from the Company's share option scheme

Number of shares for the purpose of calculating diluted (loss) earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)

Number of shares

Six months ended 30 June

2015 (Unaudited) '000	2014 (Unaudited) '000
494,167	508,031
3,327	4,510
497,494	512,541

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

10. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2015, the deposits of approximately RMB3,676,000 were transferred to property, plant and equipment (six-month period ended 30 June 2014: RMB12,468,000) and the Group spent approximately RMB311,382,000 (six-month period ended 30 June 2014: RMB172,723,000) for the acquisition of property, plant and equipment to expand its operations. The additions for the period mainly included RMB29,811,000 (six-month period ended 30 June 2014: RMB38,615,000) in office and computer equipment and RMB259,175,000 (six-month period ended 30 June 2014: RMB136,579,000) 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-month period ended 30 June 2015, the deposits of approximately RMB24,639,000 (six-month period ended 30 June 2014: Nil) were transferred to prepaid lease payments and the Group spent approximately RMB38,158,000 (six-month period ended 30 June 2014: RMB195,287,000) for the acquisition of prepaid lease payments to expand its buildings located in Fuzhou. The Group is in the process of obtaining the land use right certificates.

12. INTANGIBLE ASSETS

During the six-month period ended 30 June 2015, the Group spent approximately RMB5,640,000 (six-month period ended 30 June 2014: RMB5,859,000 (including RMB5,245,000 acquired from the acquisition of subsidiaries)) for the acquisition of intangible assets to expand its operations. The Group has no material written off of intangible assets in both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

13. INTERESTS IN ASSOCIATES

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Unlisted investments:		
Cost of investments	31,572	31,572
Share of post-acquisition losses	(8,089)	(2,777)
Contribution to a subsidiary of the Group	—	(858)
Withdrawal from a subsidiary of the Group	—	858
	23,483	28,795
Group's share of net assets of associates	22,409	27,721

14. GOODWILL

For the purpose of impairment testing, goodwill has been allocated to the individual cash-generating units ("CGUs"), which comprise the subsidiaries, 福州軟件職業技術學院 and Cherrypicks International Holdings Limited and its subsidiaries ("Cherrypicks Group"), acquired in 2012 and 2014, respectively. During the period ended 30 June 2015, management of the Group determines that there are no impairments of its CGUs containing goodwill. The recoverable amount of the goodwill has been determined based on a value in use calculation.

That calculation for 福州軟件職業技術學院 uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 6.25%. That calculation for Cherrypicks Group uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 4.56%. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the goodwill to exceed the aggregate recoverable amount of the CGUs.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

15. TRADE RECEIVABLES

The Group allows a credit period ranging from 30 to 90 days to its agents/trade customers. 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 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
0 - 30 days	33,018	31,946
31 - 60 days	17,871	7,147
61 - 90 days	4,811	7,117
Over 90 days	12,720	4,862
	68,420	51,072

16. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

During the current interim period, amount of approximately RMB61,396,000 (2014: RMB61,190,000) represented the remaining consideration of United State dollar ("USD") 10,000,000 arising from the disposal of 91 Wireless Websoft Limited ("91 Limited") and its subsidiaries ("91 Group"), which was held by the independent escrow agent and such consideration was repaid in April 2015.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

18. HELD-FOR-TRADING INVESTMENTS

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Equity securities listed in the United States of America	34,079	49,267
Unlisted overseas bond	161,317	162,317
	195,396	211,584

The fair value of the listed equity securities is based on their current bid prices in active markets. The fair value of unlisted overseas bond is determined by reference to price provided by the financial institution.

19. PLEDGED BANK DEPOSIT/SECURED BANK BORROWING

The pledged bank deposit represents deposit pledged to a bank for issue of a standby documentary credit to secure bank borrowing granted to the Group. The secured bank borrowing is denominated in USD, carries interest rate of London Inter-Bank Offer Rate plus 0.8% per annum and is repayable on 7 December 2015.

20. TRADE AND OTHER PAYABLES

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Trade payables	7,185	8,638
Accrued staff costs	68,283	86,769
Receipt in advance	8,184	20,348
Other tax payables (<i>Note</i>)	5,714	5,714
Other payables and accruals	108,203	87,745
	197,569	209,214

Note: On 28 December 2011, 91 Limited introduced a share award scheme, whereby eligible participants are conferred rights by 91 Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Limited. Upon the disposal of 91 Group on 1 October 2013, the eligible participants would be entitled to the merger consideration of USD13.168 per share and the special dividend of USD0.371 per share of 91 Limited in cash, which were both received by the Group on behalf of the eligible participants. As at 30 June 2015, an amount of approximately RMB5.7 million (31 December 2014: RMB5.7 million) of withholding PRC personal income tax calculated at the applicable tax rate and other surcharges was withheld by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

20. 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 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
0 - 90 days	5,748	5,875
91 - 180 days	319	2,096
181 - 365 days	557	158
Over 365 days	561	509
	7,185	8,638

21. AMOUNT DUE TO A RELATED COMPANY/AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand.

22. CONVERTIBLE PREFERRED SHARES

Best Assistant Education Online Limited ("Best Assistant"), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P., Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon Websoft Inc. ("NetDragon BVI"), a direct wholly owned subsidiary of the Company (collectively referred to as "Series A Investors") on 13 February 2015. The Series A convertible preferred shares are denominated in USD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

22. CONVERTIBLE PREFERRED SHARES (Cont'd)

Conversion

Series A convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to adjustments, in the event of share split, share division, share combination, share dividend, reorganisation, merger, consolidation, reclassification, exchange, substitution, recapitalisation or similar event.

Series A convertible preferred shares shall be automatically converted into ordinary shares upon occurrence of an underwritten public offering of the ordinary shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD1,000,000,000 and net proceeds to the subsidiary of the Company are in excess of USD100,000,000.

Dividends

The holders of outstanding Series A convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of the funds lawfully available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares or other equity securities. The right to receive dividends on Series A convertible preferred shares shall not be cumulative, and no rights to such dividends shall accrue to holders of convertible preferred shares.

Liquidation

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

The Series A convertible preferred shares are classified as current liabilities.

The Group has elected to designate the Series A convertible preferred shares with embedded derivatives as financial liabilities at FVTPL on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

22. CONVERTIBLE PREFERRED SHARES (Cont'd)

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

	Shown in the condensed consolidated financial statements as
	<i>RMB'000</i>
Opening balance	—
Issue of convertible preferred shares	260,474
Fair value change	—
Exchange realignment	(646)
	<hr/>
At 30 June 2015	<u>259,828</u>

23. OTHER PAYABLES

Other payables represent the consideration received on behalf of the eligible participants of the share award scheme upon the disposal of 91 Group. As at 30 June 2015, an amount of approximately RMB2,538,000 (31 December 2014: RMB2,385,000), which is repayable within twelve months after the end of the reporting period in accordance with the deferred payment agreement, is included in other payables as current liabilities. An amount of RMB1,283,000 was included as non-current liabilities as at 31 December 2014 (30 June 2015: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

24. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2014, 31 December 2014 and 30 June 2015	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2014	508,609,711	5,086,097	37,664
Shares issued upon exercise of share options	3,257,847	32,579	201
Repurchase and cancellation of shares	(14,632,500)	(146,325)	(1,084)
Shares issued upon acquisition of subsidiaries <i>(Note i)</i>	2,626,204	26,262	162
At 31 December 2014	499,861,262	4,998,613	36,943
Shares issued upon exercise of share options <i>(Note ii)</i>	3,750,352	37,503	230
Repurchase and cancellation of shares <i>(Note iii)</i>	(6,570,000)	(65,700)	(486)
At 30 June 2015	497,041,614	4,970,416	36,687

Notes:

- (i) During the year ended 31 December 2014, 2,626,204 ordinary shares were issued as consideration for acquisition of Cherrypicks Group. Approximately RMB162,000 and RMB28,031,000 were recorded as share capital and share premium, respectively.
- (ii) During the six months ended 30 June 2015, 3,750,352 share options were exercised and as a result of 3,750,352 (2014: 3,257,847) ordinary shares were issued. Approximately RMB230,000 (2014: RMB201,000) and RMB22,364,000 (2014: RMB18,083,000) were recorded as share capital and share premium, respectively.
- (iii) During the six months ended 30 June 2015, the Company repurchased 6,570,000 (2014: 14,632,500) of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being recognised. The total amount incurred to acquire the shares was approximately RMB70,581,000 (2014: RMB153,392,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

25. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 12 June 2008. The purpose of the Scheme is to provide the eligible participant ("Eligible Participant") as defined in the Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

In current interim period, options were granted on 11 May 2015. Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Outstanding at 30 June 2015
11 May 2015	N/A	11 May 2015 – 10 May 2025	37,000
11 May 2015	11 May 2015 – 6 October 2015	7 October 2015 – 10 May 2025	21,400
11 May 2015	11 May 2015 – 6 October 2016	7 October 2016 – 10 May 2025	32,100
11 May 2015	11 May 2015 – 6 October 2017	7 October 2017 – 10 May 2025	42,800
11 May 2015	11 May 2015 – 6 October 2018	7 October 2018 – 10 May 2025	53,500
11 May 2015	11 May 2015 – 6 October 2019	7 October 2019 – 10 May 2025	64,200
			<u>251,000</u>

Movements in the share options granted on 11 May 2015 are as follows:

Date of grant	Granted during period	Forfeited during period	Outstanding at 30 June 2015
11 May 2015	<u>251,000</u>	<u>—</u>	<u>251,000</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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

(i) Equity-settled share option scheme (Cont'd)

The fair value of the options granted on that date was approximately RMB2,966,000. The fair value was calculated using the Binomial option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD27.75
Exercise price	HKD27.75
Risk-free interest rate	1.652%
Expected volatility	55.79%
Expected dividend yield	1.44%

Expected volatility was determined by reference to the annualised standard deviation of the continuously compounded rates of return on the daily average adjusted share price.

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

	Number of share options
Outstanding as at 1 January 2015	13,255,487
Granted during the period	251,000
Forfeited during the period	(172,225)
Exercised during the period	<u>(3,750,352)</u>
Outstanding as at 30 June 2015	<u>9,583,910</u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD24.67.

The Group recognised the total expenses of approximately RMB2,721,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB4,464,000) in relation to share options granted by the Company.

Upon the disposal of 91 Group, few participants of 91 Group under the Scheme are no longer the staffs of the Group. However, the share options of these participants shall not lapse on the date of the disposal, but shall continue to have effect under the Scheme. The Group recognised the total expense of approximately RMB137,000 for the six months period ended 30 June 2015 (six months period ended 30 June 2014: RMB240,000) in relation to these share options granted.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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

(ii) Share award scheme by the Company

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

The Group recognised a reversal of expenses of approximately RMB823,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: recognised the total expenses of RMB1,569,000) in relation to share award.

237,725 share awards were vested and released during the six months ended 30 June 2015 (six months ended 30 June 2014: 317,400). The number of share awards outstanding at 30 June 2015 was 475,451.

(iii) Shares awarded by a subsidiary of the Company

Pursuant to the announcement of the Company dated 10 January 2013, a direct wholly owned subsidiary of the Company, NetDragon Websoft Inc. has awarded 6,114,500 shares of 91 Limited to certain selected participants of the Group. Among the shares awarded, 1,528,625 shares were entitled by the selected participants on 9 January 2013, 1,528,625 shares were entitled by the selected participants on 1 January 2014, 1,528,625 shares were entitled by the selected participants on 1 January 2015 and the remaining 1,528,625 shares will be entitled by the selected participants on 1 January 2016.

Fair value of the shares awarded at the grant date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the grant date. The fair value of the shares awarded on 9 January 2013 was approximately RMB70,165,000.

The Group recognised the total expenses of approximately RMB2,806,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB7,030,000) in relation to the shares awarded on 9 January 2013.

Upon the disposal of 91 Group with effective from 1 October 2013, certain participants of 91 Group under the Scheme are no longer the employees of the Group and the shares awarded to these participants shall be lapsed. However, the board of directors have approved shares awarded to these employees to continue to have effect as stated in the relevant letters of grant initially issued by a subsidiary of the Company. The Group recognised the total expenses of approximately RMB254,000 for the six months ended 30 June 2015 (six months ended 30 June 2014: RMB637,000) in relation to these share awarded.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

26. ACQUISITION OF SUBSIDIARIES

On 29 May 2014, the Group entered into an agreement with an independent third party to acquire 70% equity interests of Catch Investments Limited and its subsidiary, Just Me Co., Limited (collectively referred to as the "Catch Group") at a consideration of RMB5,250,000. The transaction was completed on 20 June 2014. The Catch Group is engaged in the provision of artiste management services.

On 31 December 2013, the Group entered into an agreement with an independent third party to acquire 51% equity interests of 恒康（福建）醫療信息服務有限公司 at nil consideration. The transaction was completed on 23 June 2014. 恒康（福建）醫療信息服務有限公司 is principally engaged in the provision of medical information enquires.

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

	<i>RMB'000</i>
Non-current asset	
Intangible asset	5,245
Current assets	
Trade receivables	118
Bank balances and cash	7
Current liability	
Other payables	<u>(3)</u>
Net assets acquired	<u><u>5,367</u></u>

Non-controlling interests

The non-controlling interests (30%) in the Catch Group and (49%) in 恒康（福建）醫療信息服務有限公司 recognised at the acquisition date were measured by reference to the proportionate share of fair value of identifiable assets and liabilities of the Catch Group and 恒康（福建）醫療信息服務有限公司 at the dates of acquisition.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

26. ACQUISITION OF SUBSIDIARIES (Cont'd)

Gain on bargain purchase on acquisition of subsidiaries

	<i>RMB'000</i>
Consideration paid in cash	5,250
Add: Non-controlling interests	58
Less: Net assets acquired	<u>(5,367)</u>
	<u><u>(59)</u></u>

Net cash outflow on acquisition of subsidiaries

	<i>RMB'000</i>
Consideration paid in cash	5,250
Less: cash and cash equivalent balances acquired	<u>(7)</u>
	<u><u>5,243</u></u>

The directors of the Company are of the opinion that the above subsidiaries acquired during the period ended 30 June 2014 had no significant contribution to the Group's revenue or results for the period ended 30 June 2014.

Had the acquisition been completed on 1 January 2014, the directors of the Company are of the opinion that the above subsidiaries had no significant contribution to the Group's revenue or results for the period ended 30 June 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

27. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by the Ultimate Controlling Shareholders, Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, who have entered into 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
IDG-Accel China Growth Fund L.P. ("IDG Group")	IDG Group owns approximately 13.57% of the issued share capital of the Company, therefore IDG Group is a substantial shareholder of the Company
IDG-Accel China Growth Fund-A L.P. ("IDG Group")	IDG Group owns approximately 13.57% of the issued share capital of the Company, therefore IDG Group is a substantial shareholder of the Company
IDG-Accel China Investors L.P. ("IDG Group")	IDG Group owns approximately 13.57% of the issued share capital of the Company, therefore IDG Group is a substantial shareholder of the Company
DJM Holding Ltd. ("DJM")	Mr. Liu Dejian and Mr. Zheng Hui, executive directors and beneficial owners of the Company, together have 100% equity interest in this entity
Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851")	DJM, the immediate holding company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, together have 100% equity interest in this entity
福州天亮網絡技術有限公司 ("Fuzhou Tianliang")	Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, acting under the instruction of the Ultimate Controlling Shareholders of the Company

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

27. RELATED PARTY TRANSACTIONS (Cont'd)

Nature of transactions	Six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Rental charges by Fuzhou 851	3,609	3,408
Service fee at recreation centre paid to Fuzhou 851	2,867	2,500
After-sales service fee paid to Fuzhou Tianliang	2,769	5,093
Technical service fee paid to Fuzhou Tianliang	598	1,091
Interest received on loan advanced to key management	(23)	(80)

Included in loan receivables at 30 June 2015 were loans advanced to key management of approximately RMB1,000,000 (31 December 2014: RMB1,000,000). The loans carry fixed interest at the rate of 4.48% per annum (31 December 2014: 4.48% per annum).

During the period, Best Assistant issued Series A convertible preferred shares to the Group's related companies as mentioned in note 22.

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	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Salaries, allowances and other short-term employee benefits	5,933	2,714
Contribution to retirement benefits schemes	117	58
Share-based payments expense	1,962	2,482
	8,012	5,254

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2015 RMB'000	31 December 2014 RMB'000				
Held-for-trading investments classified as financial asset	195,396	211,584	Level 1	Quoted bid prices in an active market	N/A	N/A
Convertible preferred shares	259,828	—	Level 3	Discounted cash flow using key input as follows: present worth of future economic benefits and discount rate that reflected credit risk of the Group.	Discount rate that reflected the expected rate of return that an investor would have to give up by investing in the subject investment. Company's share price estimated based on the expected revenue growth and profitability of the Group.	The higher the discount rate, the lower the fair value. The higher the Company's share price, the higher the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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

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

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

Details of reconciliation from the beginning balance to the ending balance of Level 3 fair value measurement of the convertible preferred shares are set out in note 22.

29. CAPITAL COMMITMENTS

At the end of reporting period, the Group had outstanding capital commitments as follows:

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	277,918	439,715
Capital expenditure in respect of acquisition of equity investment contracted for but not provided in the condensed consolidated financial statements	91,000	—
	<u>368,918</u>	<u>439,715</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

30. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Acquisition of 蘇州馳聲信息科技有限公司

On 1 June 2015, Modern Victory Holdings Limited ("Modern Victory"), an indirect non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement with the independent third parties (the "Vendors"), pursuant to which the Vendors conditionally agreed to sell and Modern Victory conditionally agreed to acquire 100% equity interests of 蘇州馳聲信息科技有限公司 for an aggregate consideration of RMB91,000,000 (the "Consideration"). The Consideration will partly be satisfied by cash and partly be satisfied by the allotment and issue of 9,591,159 new shares of Best Assistant, a non-wholly owned subsidiary of the Company, credited as fully paid up at an issue price of approximately RMB1.77. The directors of the Company are in the process of ascertaining the financial impact arising on this transaction.

Acquisition of Promethean World Plc

Digital Train Limited ("Digital Train"), an indirect non-wholly owned subsidiary of the Company, announced a firm intention to make a recommended offer for the entire issued and to be issued share capital of Promethean World Plc on 10 July 2015. The offer could result in a maximum aggregate cash consideration of Great British Pound 84.8 million (equivalent to approximately RMB799 million). In connection with the making of the offer, the Company, Digital Train and Promethean World Plc entered into a co-operation agreement on 10 July 2015 which sets out certain obligations and commitments in relation to the implementation of the proposed acquisition. On 6 August 2015, the offer document and form of acceptance in respect of the offer were despatched to the shareholders of Promethean World Plc.

The directors of the Company are still assessing the financial impact of this transaction. Further details of the proposed acquisition of Promethean World Plc are set out in the announcements of the Company dated 9 June 2015, 17 June 2015, 10 July 2015 and 6 August 2015.