2018 ANNUAL REPORT

NETDRAGON WEBSOFT HOLDINGS LIMITED

網龍網絡控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 777

华渔 | Edmodo | Promethean

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

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

COMPLIANCE OFFICER

Mr. Liu Luyuan

COMPANY SECRETARY

Mr. Lau Hak Kin

QUALIFIED ACCOUNTANT

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SHARE AWARD SCHEME COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Mr. Lau Hak Kin

HONG KONG LEGAL ADVISER

Jingtian & Gongcheng LLP

PRC LEGAL ADVISER

Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

CORPORATE INFORMATION

PRINCIPAL BANKERS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code

777

Listing Date

24 June 2008

Stock Name

NETDRAGON

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY WEBSITE

www.nd.com.cn

GROUP FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	962,817	1,272,197	2,793,103	3,867,623	**5,037,539**
Cost of revenue	(102,844)	(314,161)	(1,203,234)	(1,687,860)	**(1,990,298)**
Gross profit	859,973	958,036	1,589,869	2,179,763	**3,047,241**
Other income and gains	157,101	187,927	163,018	95,393	**118,189**
Impairment loss, net of reversal	–	–	–	(275)	**(11,717)**
Selling and marketing expenses	(152,495)	(206,778)	(519,662)	(624,716)	**(697,871)**
Administrative expenses	(326,934)	(520,104)	(720,967)	(734,560)	**(853,180)**
Development costs	(249,260)	(446,229)	(759,932)	(844,076)	**(922,867)**
Other expenses and losses	(34,027)	(24,092)	(61,134)	(100,134)	**(150,308)**
Share of losses of associates	(2,354)	(9,912)	(862)	(822)	**(1,370)**
Share of loss of a joint venture	–	–	–	(567)	**(1,717)**
Provision for product impairment	–	–	(77,774)	–	**–**
Operating profit (loss)	252,004	(61,152)	(387,444)	(29,994)	**526,400**
Interest income on pledged bank deposits	2,794	6,018	–	2,558	**3,607**
Exchange (loss) gain on pledged bank deposit, secured bank borrowings and convertible preferred shares	(5,081)	(15,504)	(21,824)	3,250	**(10,030)**
Net (loss) gain on convertible preferred shares	–	(2,521)	193,357	2,809	**60,659**
Net gain (loss) on other derivative financial instruments	6,817	(393)	–	–	**–**
Net loss on disposal of property held for sale	–	–	–	–	**(68)**
Net fair value (loss) gain on held-for-trading investment	(17,304)	(8,268)	15,799	58	**–**
Finance costs	(3,212)	(5,431)	(8,650)	(10,409)	**(12,415)**
Profit (loss) before taxation	236,018	(87,251)	(208,762)	(31,728)	**568,153**
Taxation	(64,197)	(100,675)	(28,022)	(57,209)	**(91,349)**
Profit (loss) for the year	171,821	(187,926)	(236,784)	(88,937)	**476,804**

GROUP FINANCIAL SUMMARY

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Attributable to:					
– Owners of the Company	176,681	(142,979)	(202,742)	(20,843)	**545,573**
– Non-controlling interests	(4,860)	(44,947)	(34,042)	(68,094)	**(68,769)**
Profit (loss) for the year	171,821	(187,926)	(236,784)	(88,937)	**476,804**
Earnings (loss) per share					
– Basic (RMB cents)	34.77	(28.85)	(40.93)	(4.12)	**102.42**
– Diluted (RMB cents)	34.22	(28.85)	(40.93)	(4.12)	**102.27**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	1,470,787	3,115,949	2,996,874	3,140,286	**3,391,027**
Current assets	3,759,600	2,386,149	1,782,094	2,695,371	**3,354,915**
Non-current liabilities	(1,399)	(164,743)	(234,603)	(314,990)	**(464,570)**
Current liabilities	(611,585)	(1,033,718)	(716,088)	(1,036,606)	**(1,482,392)**
Non-controlling interests	(50,489)	(9,791)	25,552	65,106	**133,824**
Equity attributable to owners of the Company	4,566,914	4,293,846	3,853,829	4,549,167	**4,932,804**

CHAIRMAN'S STATEMENT

Dear Shareholders,

Looking back at 2018, we are proud that we achieved outstanding results with diligence and persistence. From a macro perspective, the extension from PC games to mobile games and the digitalization in education continued to be tailwinds for our business development. Our robust performance in 2018 is a testament to this. Our Group revenue for 2018 was RMB5,037.5 million, a 30.2% increase over 2017, of which our gaming revenue was RMB2,367.4 million, increased by 41.5% from 2017, while revenue from education increased by 21.9% to RMB2,565.6 million. Most importantly, we recorded an operating profit of RMB526.4 million, as compared to an operating loss of RMB30.0 million last year. All these, including operating profit, are record-high numbers.

LEARNING

Our education business maintained its remarkable growth in 2018 with a year-over-year increase of 21.9% in revenue to RMB2,565.6 million, which represents 50.9% of the Company's total revenue. With over 100 million users spanning across over 190 countries, the blueprint of our global lifelong learning community is now clear and distinct.

We are convinced that technologies are reshaping education worldwide and this trend will accelerate in the foreseeable future. Despite the solid growth in use of interactive classroom technologies in recent years, more than two-thirds of the 43 million classrooms worldwide remain unpenetrated[1] without front-of-class interactive displays, especially in EMEA, Latin America and Asia regions. As such, there are tremendous opportunities to be captured and we are best positioned for this because of our market leadership. And the growth story does not stop here, because our interactive classroom technologies also enable us to acquire online users for our learning community.

Not only did we gain market shares in developed markets, we also excelled on the back of the Belt and Road Initiatives as we continued to expand into new markets across emerging countries, including Malaysia, Egypt, Nigeria and Kenya. In addition, we completed the shipment of the sizable second phase tender of Moscow's multi-year Online School Project as a part of its "Smart City" initiative.

During the year, we took another major step forward for our education business by acquiring Edmodo, one of the largest education communities globally with over 100 million users to date. The acquisition enables us to offer a complete product portfolio that covers pre-class, in-class and after-class learning environments, anywhere and at any time.

In China, we remained focused on expanding our user coverage. By the end of 2018, our flagship software platform 101 Education PPT had a total of 5.0 million installations covering all 34 provinces and cities across China, as compared to 1.2 million by the end of 2017. Moreover, our VR business scaled quickly on the back of rising demand of VR-related projects across China, driven by the country's objective to promote creativity. In fact, the Ministry of Education has recently made VR a professional major, which has in turn laid the foundation for our future growth.

1 Futuresource Consulting: Quarter 4 2018 World Interactive Displays

CHAIRMAN'S STATEMENT

In the past several years, we have grown the business multiple-fold both organically and inorganically. We will continue to explore and evaluate any opportunities that could help broaden our offerings, with the focus on enhancing synergies and providing integrated offerings to our users worldwide.

GAMING

Our gaming business continued to deliver strong growth in 2018. Gaming revenue increased by 41.5% year-over-year to RMB2,367.4 million, which represents 47.0% of the Company's total revenue.

With US$38 billion of total spending and 620 million of gamers in 2018, China's gaming market is the largest globally[2]. Of the US$38 billion spending, mobile games accounted for more than 60% and we have strategized to seize this opportunity. The mobile games revenue grew by 49.3% year-over-year in 2018 while contributing 19.1% to the total gaming revenue, and we expect its contribution to rise further.

In addition, we have seen positive signs in the spending power from our gamers. In 2018, our objective to enhance user experience resulted in ARPU increase of 64.8% year-over-year to RMB665.

Looking forward, we will continue to maximize our IP values by introducing new games and game-play features. We are also looking to introduce new IPs in order to bring brand new experience for gamers.

LOOKING AHEAD

Building online communities has always been at the heart of our business, and we believe our proprietary technology, development capabilities and best in class data analytics will enable us to grow bigger, stronger and better.

2019 is a special year to us as it marks our 20th anniversary. I would like to thank our Board of Directors, shareholders, employees and business partners for their unwavering support over the years, without which we would not be able to stand where we are today. I look forward to another exciting year ahead, and together, building global communities which we will all benefit from.

Thank you for your ongoing support.

Dejian Liu
Chairman

2 Newzoo: China Games Market 2018

MANAGEMENT DISCUSSION AND ANALYSIS

(1) FINANCIAL HIGHLIGHTS AND REVIEW

2018 Second Half Financial Highlights

- Revenue was RMB2,567.6 million, representing a 22.7% increase year-over-year.
- Revenue from the games business was RMB1,328.1 million, representing 51.7% of the Group's total revenue, registered a 52.6% increase year-over-year.
- Revenue from the education business was RMB1,181.5 million, representing 46.0% of the Group's total revenue, registered a 0.9% increase year-over-year.
- Gross profit was RMB1,645.1 million, representing a 43.5% increase year-over-year.
- Core segmental profit[1] from the games business was RMB775.5 million, representing an 127.4% increase year-over-year.
- Core segmental loss[1] from the education business was RMB262.1 million, representing an 11.9% increase year-over-year.
- Non-GAAP[2] operating profit was RMB402.5 million, representing an 1,848.3% increase year-over-year.
- Profit attributable to owners of the Company was RMB344.8 million, compared to loss attributable to owners of the Company RMB46.6 million for the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Fiscal Year 2018 Financial Highlights

- Revenue was RMB5,037.5 million, representing a 30.2% increase year-over-year.
- Revenue from the games business was RMB2,367.4 million, representing 47.0% of the Group's total revenue, registered a 41.5% increase year-over-year.
- Revenue from the education business was RMB2,565.6 million, representing 50.9% of the Group's total revenue, registered a 21.9% increase year-over-year.
- Gross profit was RMB3,047.2 million, representing a 39.8% increase year-over-year.
- Core segmental profit[1] from the games business was RMB1,299.9 million, representing a 92.5% increase year-over-year.
- Core segmental loss[1] from the education business was RMB420.7 million, representing a 0.6% decrease year-over-year.
- Non-GAAP[2] operating profit was RMB651.8 million, representing an 853.8% increase year-over-year.
- Profit attributable to owners of the Company was RMB545.6 million, compared to loss attributable to owners of the Company of RMB20.8 million last year.
- The Board of Directors proposed a final dividend of HKD0.15 per share (2017: HKD0.10 per share), subject to approval by shareholders in the coming Annual General Meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Segmental Financial Highlights

2018 Second Half

	2018 2H		2018 1H		2017 2H	
(RMB'000)	**Gaming**	**Education**	Gaming	Education	Gaming	Education
Revenue	**1,328,059**	**1,181,482**	1,039,346	1,384,074	870,453	1,171,213
Gross profit	**1,283,856**	**344,558**	978,499	421,499	810,186	316,503
Gross margin	**96.7%**	**29.2%**	94.1%	30.5%	93.1%	27.0%
Core segmental profit (loss)[1]	**775,547**	**(262,056)**	524,376	(158,650)	341,007	(234,116)
Segmental operating expenses[3]						
– Research and development	**(236,489)**	**(234,807)**	(222,443)	(214,525)	(236,651)	(203,125)
– Selling and marketing	**(136,703)**	**(216,543)**	(102,609)	(224,161)	(102,853)	(223,341)
– Administrative	**(152,237)**	**(126,497)**	(143,806)	(113,000)	(143,786)	(90,354)

Fiscal Year 2018

	FY2018		FY2017		**Variance**	
(RMB'000)	**Gaming**	**Education**	Gaming	Education	**Gaming**	**Education**
Revenue	**2,367,405**	**2,565,556**	1,672,858	2,105,290	**41.5%**	**21.9%**
Gross profit	**2,262,355**	**766,057**	1,565,359	589,675	**44.5%**	**29.9%**
Gross margin	**95.6%**	**29.9%**	93.6%	28.0%	**2.0%**	**1.9%**
Core segmental profit (loss)[1]	**1,299,923**	**(420,706)**	675,117	(423,340)	**92.5%**	**(0.6)%**
Segmental operating expenses[3]						
– Research and development	**(458,932)**	**(449,332)**	(439,811)	(386,916)	**4.3%**	**16.1%**
– Selling and marketing	**(239,312)**	**(440,704)**	(199,971)	(415,392)	**19.7%**	**6.1%**
– Administrative	**(296,043)**	**(239,497)**	(277,695)	(159,156)	**6.6%**	**50.5%**

Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with Hong Kong Financial Reporting Standard 8 ("HKFRS 8")), but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of financial instruments and fair value change of convertible preferred shares.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK

2018 was a record year for NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), as both revenue and operating profit reached record-highs. The Group recorded revenue of RMB5,037.5 million in 2018, up 30.2% year-over-year, and operating profit of RMB526.4 million in 2018, versus operating loss of RMB30.0 million in 2017. In addition, the Group generated cash inflows from operations of RMB694.1 million, up 105.9% year-over-year. These remarkable numbers were underpinned by the strong execution in both gaming and education segments.

The gaming business revenue grew by 41.5% year-over-year to a record-high RMB2,367.4 million in 2018. Mobile games remained a major growth driver, with 49.3% year-over-year growth in revenue. In terms of new games development, several new games in the pipeline have recently obtained license approvals. It is optimistic that the industry's licensing will continue. On the other hand, the Group will continue to execute the strategy to maximize intellectual property ("IP")'s values and accelerate the growth further by expanding the IP portfolio, both organically and by working with different partners.

The Group is also excited by the exceptional growth of the education business. In overseas, adoption of the interactive learning technologies continued to expand rapidly in both developed and emerging countries. As a result, the subsidiaries, Promethean Group ("Promethean") strengthened its global market leadership in K-12 interactive learning technologies during the year with number-one market share in major markets including the U.S. and vast majority of the EU countries. It is also pleased to complete the acquisition of Edmodo, Inc. ("Edmodo") in May 2018. With Edmodo joining the Group, it is in a unique position to offer a complete product portfolio that covers pre-class, in-class and after-class learning environments, anywhere and at any time. More importantly, the online community has accumulated more than 100 million of registered users to date, which will enable the Group to accelerate user monetization.

In China, the Group remained focused to drive adoption of the software platforms. As at the end of 2018, the installed base of the flagship platform 101 Education PPT in China was 5.0 million, as compared to 1.2 million as at the end of 2017, covering all 34 provinces and cities across China.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Gaming Business

The gaming business revenue grew by 41.5% year-over-year to a record-high RMB2,367.4 million in 2018. As a result of strong top line growth combined with operating leverage, gaming's core segmental profit jumped by 92.5% year-over-year.

PC games recorded 39.8% year-over-year revenue growth to RMB1,915.0 million in 2018. The number set a new historical-high over the 20 years of operating history. On the other hand, mobile games registered strong revenue growth of 49.3% year-over-year to RMB452.4 million in 2018. In particular, the combined monthly gross billings of the pocket version of Eudemons Online (魔域) and Eudemons Online Mobile averaged RMB100 million during the second half of 2018. During the year, the Group also focused on enhancing user experience by introducing new expansion packs, content updates and game features. As such, the ARPU surged by 64.8% year-over-year to RMB665 in 2018.

Looking forward, the Group will continue to drive growth by maximizing the IP values with new games and game-play features, as well as expanding the IP portfolio via self-development and partnerships. Finally, the Group is in a good position to launch a number of new games in 2019 as several new games in the pipeline have recently obtained license approvals, while some others are awaiting approvals following the applications. Currently, the pipeline is solid and diversified, as the Group plans to introduce multiple games under new IPs and genres in 2019. These include a series of SLG and MOBA games which are expected to have tremendous upside in terms of monetization.

Education Business

The education business revenue increased by 21.9% year-over-year to RMB2,565.6 million on the back of strong execution and solid progress being made on all fronts. In overseas, it is pleased to see Promethean recorded revenue of RMB2,200.3 million in 2018, up 25.9% year-over-year. During the year, the Group sustained the growth momentum in the major markets across developed countries, particularly in the US and Europe. It is also excelled on the back of the Belt and Road Initiatives as the Group continued to expand into new markets across emerging countries, including Egypt, Nigeria, Kenya and Malaysia. In addition, the shipment of the sizable second phase tender of Moscow's multi-year Online School project as a part of its "SmartCity" initiative was completed. As a result, not only did Promethean strengthen its market leadership in K-12 interactive displays, but it also reported a net profit of RMB151.5 million in 2018, as compared to RMB5.0 million in 2017.

The Group also made progress in building the learning community with the acquisition of Edmodo during the year of 2018. To date, the total users of Edmodo have exceeded 100 million in over 400,000 schools across more than 190 countries. Combining Edmodo with Promethean's interactive learning technologies, the comprehensive product portfolio will support the entire learning process, in and out of the classroom, including lesson preparation, lesson delivery, student collaboration, homework features, teacher-student-parent communications, education content marketplace and resources sharing. By capturing all the major use cases in K-12 learning, the complete product offerings will put the Group in a unique position to convert significant user traffic into massive monetization opportunities.

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

In China, the strategy focus remained expanding user coverage and its traction was remarkable. As at the end of 2018, the flagship software platform 101 Education PPT in China reached 5.0 million installations, as compared to 1.2 million as at the end of 2017. Furthermore, the virtual reality ("VR") business scaled quickly on the back of rising demand of VR-related projects across China, driven by the country's objective to promote creativity. The Ministry of Education has also recently made VR a professional major, which has in turn laid the foundation for the future growth in this space. As a result of the growth in the VR business which entails higher gross margins, the China education business recorded a 13.6% increase in gross profit year-over-year.

Looking forward, the Group expects to start the online service monetization in the second half of 2019 as it plans to launch the new online tutoring service on Edmodo. It is also excited that the new Promethean ActivPanel Element Series will accelerate cloud-based connectivity amongst students and teachers, which together with Edmodo, will drive user engagement both in classrooms and at home. In China, the Group is also devising a strategy to start large-scale penetration of Promethean offerings during the year of 2018.

The vision to revolutionize education with advanced technologies remains firm and clear. The Group is on a mission to create "the classrooms of the future" and it is believed that the Group is better positioned than anyone with the best-in-class learning products and technologies.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Corporate Milestones and Awards in 2018

Year 2018	**Corporate Development Milestones/Recognitions**
February	Fujian TQ Digital Inc. ("TQ Digital") was awarded "2017-2018 National Key Enterprise of Cultural Export"(2017-2018 年度國家文化出口重點企業) by the Ministry of Commerce of the PRC (中華人民共和國商務部), the Publicity Department of the Communist Party of China (中國共產黨中央委員會宣傳部), the Ministry of Finance of the People's Republic of China (中華人民共和國財政部), the Ministry of Culture of the People's Republic of China (中華人民共和國文化部), the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China (中華人民共和國國家新聞出版廣電總局).
April	TQ Digital was awarded the "The Strategic Partner of the First Digital China Summit"*「首屆數字中國建設峰會戰略合作夥伴」by The Organizing Committee of the First Digital China Summit (首屆數字中國建設峰會籌備組秘書處).
May	Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)") was awarded the "Excellent Enterprise of the Game Industry in China 2017"*「中國遊戲行業2017年度優秀企業」by Golden Thumb Award Adjudication (金手指獎評審委員會).
June	NetDragon (Fujian) was awarded the "Top 100 Enterprises with Comprehensive Competitiveness in Software and Information Technology Service of China 2018"*「2018中國軟件和信息技術服務綜合競爭力百強企業」by China Information Technology Industry Federation (中國電子信息行業聯合會).
July	NetDragon (Fujian) was awarded the "Top 100 Internet Enterprises in PRC 2018"* 「2018中國互聯網企業百強」by Internet Society of China and Information Centre of the Ministry of Industry and Information Technology.(中國互聯網協會、工業和信息化部信息中心).
November	NetDragon (Fujian) was awarded the "Top Ten Private Enterprises for Providing Jobs in Fuzhou City"* 「福州市擴大就業十佳民營企業」and the "Top Ten Private Enterprises for Invention and Innovation in Fuzhou"* 「福州市發明創新十佳民營企業」 by Fuzhou Municipal Committee of the Communist Party of China and the People's Government of Fuzhou Municipality （中共福州市委，福州市人民政府）.
	NetDragon (Fujian) was awarded the "Top Ten Cultural Enterprises of Fujian Province 2018"*「2018年度福建省文化企業十強」by the Fujian Provincial Cultural Reform and Development Leading Group (福建省文化改革發展工作領導小組).

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

(3) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2018, the Group had pledged bank deposits, restricted bank deposit, bank deposit over three months, restricted bank balances and bank balances and cash of approximately RMB1,723.2 million (31 December 2017: RMB1,748.9 million).

As at 31 December 2018, the Group had net current assets of approximately RMB1,872.5 million as compared with approximately RMB1,658.8 million as at 31 December 2017.

(4) GEARING RATIO

The gearing ratio (consolidated secured bank borrowings/consolidated total equity) was 0.07 (31 December 2017: 0.05). As at 31 December 2018, total secured bank borrowings of the Group amounted to approximately RMB324.8 million (31 December 2017: RMB232.7 million) which were variable-rate loans. The bank borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, and corporate guarantee provided by the Company and its subsidiaries.

(5) CAPITAL STRUCTURE

As at 31 December 2018, the Group's total equity amounted to approximately RMB4,799.0 million (2017: RMB4,484.1 million).

(6) FOREIGN CURRENCY RISK

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

MANAGEMENT DISCUSSION AND ANALYSIS

(7) CREDIT RISK

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the 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 performs impairment assessment under expected credit losses model on trade balances based on provision matrix, and trade receivables which are credit-impaired are assessed for expected credit losses individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on restricted bank balances, pledged bank deposits, bank deposit over three months and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks located in the PRC. In this regard, the directors of the Company consider that the expected credit losses on these balances is insignificant.

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 receivables, other receivables and contract assets with exposure spreading over a number of counterparties and customers.

(8) LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

CORPORATE CULTURE

Innovation

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

Customer comes first

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

Learning

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

Pursuit of excellence

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

Passion

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

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

Fairness

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

Aggressiveness

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

STAFF RELATIONSHIP AND WELFARE

HUMAN RESOURCES

The Group had an overall staff headcount of 6,100 as at 31 December 2018.

1. In 2018, employees were upgraded and more focused by integrating corporate strategies and objectives, a total of 1,091 new employees were recruited during the year, most of them were outstanding talents in the areas of games and education, to fulfill the mission of recruiting excellent talents for the Company. In the second half of 2018, the Group promoted campus recruitment activities in key renowned universities across China for continuous employment of new employees into the Company. Moreover, in respect of branding for campus owner, we were awarded the honor of "2018 Best Employer and Most Intelligent Employer of the Year" jointly organized by Zhaopin.com and Social Survey and Research Center of Peking University.

2. To facilitate transparency and equality in corporate information and enhance management efficiency of human resources, artificial intelligence ("AI") technology was applied in the corporate management area by using cloud office as the carrier, together with AI technology, the level of digitization and intelligence of the corporate management system was enhanced comprehensively to provide data support for decision-making in corporate personnel management (such as selection, recruitment, education and retention, etc.). Also, with the help of AI+ tools, self-autonomy in management by staff could be realized to build a fair, transparent and efficient organization atmosphere.

3. Through promoting a flat management model, focusing on the production characteristics of education contents, and leveraging on the organization structure classified by the production course of resources, autonomous staff management could be realized by stimulating the maximum level of proactiveness and motivation in staff at work and revitalizing organizational efficiency, so as to enhance the quality and efficiency in the production of resources, and develop the Group into a capability conferring platform and organization.

4. Staff requirements in terms of performance and business matters were enhanced to meet the needs for corporate management and personnel upgrading. The remuneration and benefit policies were more favorable to management positions and senior professional technological positions of high value in order to attract and retain core employees who would generate enterprise value for the Company. Short-term incentive schemes were streamlined and improved, and the design for short-term incentive schemes would consider the features of various business units, increase the correlation between remuneration and corporate strategies and operation targets, and guiding personal goals of staff to coincide with corporate goals.

WORKING ENVIRONMENT

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Liu Dejian, aged 47, Chairman of the Board and Executive Director

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

* *For identification purpose only*

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

Leung Lim Kin, Simon, aged 64, Vice Chairman of the Board, Executive Director, Chairman of Fujian Province Huayu Education Technology Limited ("Fujian Huayu")

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

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

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

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

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

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

Liu Luyuan, aged 45, Executive Director, Chief Executive Officer, Compliance Officer and one of the authorized representative of the Company

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

As an outstanding representative of the new social community taking part in the construction of the Fujian West-strait Economic Zone, Mr. Liu has engaged in the operation and management of software enterprises and technology development since his graduation from Chengdu Electronic Technology University in 1997. He has decades of experience in the management and administration of technical institutions. Mr. Liu is in charge of overall management. He has set up the project management department, and introduced the game project management system to ensure a level of standards for game products. As the Company's spokesman, he is also responsible for coordination with governmental departments, media, and other external parties, under which he has built up the Company's public reputation. By taking part in various activities on behalf of the Company, he shared new ideas and new technologies in animation and game industry. Furthermore, he set up the West Taiwan Strait Youth Entrepreneurs Foundation to cultivate talent. Mr. Liu was awarded the "May 4th Youth Medal" and the titles of "Fujian Brilliant Entrepreneur", "Fujian Top Ten Economic People" and "Fujian Business Building Haixi Outstanding Contribution Award".

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

Chen Hongzhan, aged 46, Executive Director, Senior Vice President and Chief Technology Officer

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

DIRECTORS AND SENIOR MANAGEMENT

Zheng Hui, aged 50, Executive Director, Chairman of NetDragon (Fujian), NetDragon Communist Party Committee Secretary and Senior Vice President

Mr. Zheng is an Executive Director of the Company and is responsible for the overall management and administration of the Group. Mr. Zheng manages our administrative department and provides supporting resources to our operation. Mr. Zheng also coordinates, supervises and manages the duties of our various departments. Mr. Zheng has more than 20 years of management and administration experience. He is one of the founding shareholders and has been appointed as the senior executive manager of NetDragon (Fujian) since 1999. Mr. Zheng is the legal representative and director of Fujian NetDragon Websoft Co, Limited*(福建網龍計算機網絡信息技術有限公司), Fujian TQ Digital Inc. (福建天晴數碼有限公司), Fujian Province Huayu Education Technology Limited* (福建省華漁教育科技有限公司) and Fujian Tianquan Education Technology Limited* (福建天泉教育科技有限公司). At the same time, he is the Deputy to the Fujian Thirteenth Provincial People's Congress* (福建省第十三屆人大代表), the Deputy to the Fuzhou Fifteenth Provincial People's Congress* (福州市第十五屆人大代表), the Chairman of China Culture and Entertainment Industry* (中國文化娛樂行業協會理事), the Chairman of Fujian Cultural Enterprises Association* (福建省文化企業協會會長) and the Chairman of Trade Development Association of Fuzhou City* (福州市服務貿易發展促進協會會長), Vice Chairman of the Fujian Provincial Confidential Association*(福建省保密協會副會長), Vice Chairman of the Fujian Provincial Technology Market Association* (福建省技術市場協會副會長), the Committee of the Fujian Provincial Youth Federation* (福建省青年聯合會委員), Vice Chairman of Fuzhou Talent Development Association* (福州市人才發展促進會副會長) and has taken on other positions. Mr. Zheng was awarded the Brilliant Entrepreneur of Game Industry in China* (中國遊戲行業優秀企業家) during 2016 and 2017 and was recognized as the First Batch of Cultural Master in Fuzhou. *(福州市首批文化名家) in September 2018.

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

NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 56, Non-executive Director

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

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 53, Independent non-executive Director

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

Lee Kwan Hung, aged 53, Independent non-executive Director

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

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

Mr. Lee is currently an independent non-executive director of Embry Holdings Limited, Newton Resources Ltd, Tenfu (Cayman) Holdings Co. Ltd, Landsea Green Group Co., Ltd., China BlueChemical Limited, Red Star Macalline Group Corporation Ltd., FSE Services Group Limited (formerly known as "FSE Engineering Holdings Limited"), Ten Pao Group Holdings Limited and China Goldjoy Group Limited, the shares of which are listed on the Stock Exchange. Mr. Lee was also an independent non-executive director of (1) Futong Technology Development Holdings Limited between November 2009 and November 2017 and (2) Asia Cassava Resources Holdings Limited between January 2009 and May 2018. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

DIRECTORS AND SENIOR MANAGEMENT

Liu Sai Keung, Thomas, aged 46, Independent non-executive Director

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

SENIOR MANAGEMENT

Yam Kwok Hei, Benjamin, aged 43, Chief Financial Officer and Senior Vice President

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

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

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

After joining the Group in September 2009, Mr. Yu now serves as Senior Vice President of the Group, Chairman of Fujian Huayu (China) and Chairman of Fuzhou Software Technology Vocational College (福州軟件職業技術學院), responsible for the planning, consolidation and operation development of the education business of the Group in the PRC. He was a director of Xiamen Digital Engine Network Co., Ltd. (廈門數位引擎網絡有限公司) in 2000. He was Assistant to the Dean of Fuzhou-Napier College (福州大學中英 Napier 學院) from 2000 to 2007, Managing Director of Fuzhou Bojie Education Consultation Co., Ltd. (福州博傑教育諮詢有限公司) in February 2004, Deputy Director of the Chinese and Australian Class Project of Fuzhou No. 8 Secondary School and the Chief Representative of the Australian school in the PRC in June 2006 and Managing Director of Fuzhou Bojie Child Education Technology Co., Ltd. (福州博傑兒童教育科技有限公司) from 2008 to 2009. Mr. Yu graduated from the Department of Light Industries of Fuzhou University in 1992, majoring in food engineering. He has over 16 years of experience in education management.

DIRECTORS AND SENIOR MANAGEMENT

Lin, Chiachuan, Peter, aged 48, Chief Designer and Vice President

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

Lin Xin, aged 42, Chief Executive Officer of 福建省天晴互動娛樂有限公司 and Senior Vice President

After joining the Group in 2008, Mr. Lin is in full responsible for the marketing operation of game-products and 91 mobile phone assistant platforms before it had been sold. Under his leadership, the Group gets the outstanding achievements on both online game and 91 mobile phone assistant platform operation. Mr. Lin has keen discernment of the market, forward-looking understanding of the global game and mobile network industry market situation, profound understand the operation mode of related industry. Before he joins into the Group, Mr. Lin served for Ogilvy China for more than 10 years, Ogilvy China is one of the world's largest communications services companies, which makes him has unique insight of the various consumer groups in China and very effective practice of different fields of communication industry and brand management.

Wang Song, aged 37, Chief Product Officer and Senior Vice President

Mr. Wang joined the Group in 2002 and is responsible for the game projects, such as Eudemons Online《魔域》 and Conquer Online 《征服》. He has also participated in the planning of a number of major projects, including Monster & Me《幻靈游俠》, Zero Online《機戰》, OL Tou Ming Zhuang Online《投名狀 OL》 and OL Heroes of Might & Magic Online《英雄無敵 OL》. Since 2004, Mr. Wang has been planning the Eudemons Online《魔域》 project, and in the past ten years, he has led the Eudemons Online《魔域》 related projects to win numerous awards in China, successfully enter the overseas market, and achieve tens of billions of income for the Company. Mr. Wang has also been responsible for the planning and research and development of educational products of the Group since 2013. Since 2017, with the change of the Group's overall education business structure, Mr. Wang has been fully responsible for the product business of the Group (including games and education). He is currently the Chief Products Officer and Senior Vice President of the Company, mainly responsible for the Company's core product design, major strategic recommendations and major decision making.

DIRECTORS AND SENIOR MANAGEMENT

Lin Wei, aged 40, President of Fujian Huayu in PRC, Senior Vice President

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

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

Xiong Li, 43 years old, Chief Executive Officer of NetDragon (Fujian), Associate Dean of Chinese Academy of Education Big Data, Deputy Director of National Engineering Laboratory for Cyberlearning and Intelligent Technology

Dr. Xiong joined the Group as Chief Executive Officer of NetDragon (Fujian) in July 2014, responsible for the Company's general operation and management. His responsibilities include human resources, NetDragon University, public relations, art development and corporate on-the-job training projects. In November 2017, Dr. Xiong was appointed as deputy director of National Engineering Laboratory for Internet Education Intelligent Technology and Application. In January 2019, he was appointed as the Associate Dean of Chinese Academy of Education Big Data. Dr. Xiong has over 13 years of management experience in both information technology and internet industries. Before joining the Group, Dr. Xiong served as director of human resources at Shanda Group, and then as executive director of human resources and director of the office of the president. During this time, he oversaw and operated Shanda's unique game-oriented management system and has applied for an intellectual property patent. Previously, Dr. Xiong was also a project manager of human resources at China Mobile where he led the building of competence model and won the 2nd prize of national management innovation issued by China's Ministry of Industry and Information Technology. Dr. Xiong received a bachelor's degree in automation from University of Science and Technology of China in 1999 and a doctorate degree in management science and engineering in 2004 when graduated early. Dr. Xiong has published over 20 academic papers in domestic and foreign core journals.

Chen Hong, aged 43, Chief Technology Officer ("CTO") of Fujian Huayu and Senior Vice President

Mr. Chen joined the Group as CTO of Fujian Huayu in April 2018, fully responsible for technical development strategy planning, research and development, difficult challenges and innovation, capacity improvement and other technical management issues in the education business field. Prior to joining the Group, Mr. Chen served as General Manager of VMware Beijing R&D Center, R&D Director of CPD China and Japan, and CTO of SVM (Joint Venture of Sugon and VMware). Mr. Chen has rich management experiences in large-scale teams of Chinese and global companies, Sino-foreign joint ventures and startups. He also has excellent management skills in Internet education, education artificial intelligence, cloud computing, operating system, network, storage, system management automation and large enterprise software development, testing, product management, customer technical support, and R&D center management. Mr. Chen obtained a master's degree in engineering from Beijing Institute of Technology in 1999 and a master's degree in business administration from Tsinghua University in 2008.

DIRECTORS AND SENIOR MANAGEMENT

Vin Riera, aged 48, Chief Executive Officer of Promethean

Vin Riera was appointed as Chief Executive Officer at Promethean in January 2017. Vin is responsible for Promethean's "mission to develop the transformative technologies, educational content and dynamic experiences that motivate students to learn". He is committed to furthering the legacy of success and continuing to place Promethean customers at the centre of everything it does. Prior to working for Promethean, Vin has served as the Chief Executive Officer at Collegis Education, Chief Executive Officer at Edmentum and held executive leadership roles at Gateway and Orange Business Services. Vin holds a Bachelor of Business Administration from Western New England University an has over 25 years of successful experience across the hardware, software and business services fields.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Hak Kin, Wood, aged 41, Financial Controller, Qualified Accountant, Head of Compliance and Corporate Affairs and Company Secretary

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

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

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

Details of the principal activities of the Company's principal subsidiaries are set out in note 56 of Notes to the Consolidated Financial Statements.

BUSINESS REVIEW

The fair review of the Group's business for the year ended 31 December 2018 is set out in "Management Discussion and Analysis" section on pages 11 to 14.

Details of analysis of the financial key performance are set out in "Management Discussion and Analysis" section on pages 8 to 10.

PRINCIPAL RISKS & UNCERTAINTIES

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

REPORT OF THE DIRECTORS

BUSINESS REVIEW (Cont'd)

PRINCIPAL RISKS & UNCERTAINTIES (Cont'd)

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

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

Details of the risks relating to the contractual arrangements are set out on pages 50 to 54.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

REPORT OF THE DIRECTORS

BUSINESS REVIEW (Cont'd)

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

Workplace Quality

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

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

REPORT OF THE DIRECTORS

BUSINESS REVIEW (Cont'd)

COMPLIANCE WITH LAWS AND REGULATIONS (Cont'd)

Health and Safety

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

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

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2018 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 98.

The interim dividend of HKD0.10 per share amounting to approximately RMB44,780,000 for the six months ended 30 June 2018 was paid on 19 October 2018.

The Directors now recommend the payment of a final dividend of HKD0.15 per share. The final dividend is expected to be payable on or before Friday, 5 July 2019 to shareholders whose names appear on the register of members of the Company on Thursday, 13 June 2019, amounting to approximately RMB69,809,000.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2018.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2018 are set out in note 14 of Notes to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements of the Company's issued shares for the year ended 31 December 2018 are set out in note 44 of Notes to the Consolidated Financial Statements.

REPORT OF THE DIRECTORS

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2018 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018 and 2017, the Company had reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB69,809,000 (2017: approximately RMB44,661,000), share premium of approximately RMB1,568,632,000 (2017: approximately RMB1,615,452,000) and retained earnings of approximately RMB32,569,000 (2017: approximately RMB276,876,000) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue from sales of goods or rendering of services attributable to the Group's five largest customers and the Group's largest customer accounted for approximately 25.6% and approximately 8.3%, respectively, of the Group's total revenue for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for approximately 71.2% and approximately 48.1%, respectively, of the Group's total purchase for the year.

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

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

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

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

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

Notes:

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

The Directors' profile is set out on pages 20 to 25.

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Name of company**	**Capacity and nature of interests**	**Number of ordinary shares and underlying shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
Liu Dejian *(Note 2)*	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	255,822,457(L)	48.16%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB299,880,000(L)	99.96%
Leung Lim Kin, Simon *(Note 4)*	The Company	Beneficial owner	1,363,530(L)	0.26%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and beneficiary of certain trust	255,822,457(L)	48.16%
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB299,880,000(L)	99.96%
Zheng Hui *(Note 2)*	The Company	Beneficial owner and through controlled corporations	255,822,457(L)	48.16%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB299,880,000(L)	99.96%
Chen Hongzhan *(Note 5)*	The Company	Beneficial owner and beneficiary of certain trust	11,197,019(L)	2.11%
Chao Guowei, Charles *(Note 6)*	The Company	Beneficial owner	918,000(L)	0.17%
Lee Kwan Hung *(Note 7)*	The Company	Beneficial owner	692,019(L)	0.13%
Liu Sai Keung, Thomas *(Note 8)*	The Company	Beneficial owner	975,019(L)	0.18%

REPORT OF THE DIRECTORS

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

Notes:

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

2. Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 35.97% of the issued voting shares of the Company. Liu Dejian is also interested in 0.39% of the issued voting shares of the Company which is represented by beneficial interest of 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

   Liu Luyuan is interested in 5.31% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust of 26,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

   Zheng Hui is interested in 100.00% of the issued share capital of Fitter Property Inc., which in turn is interested in 3.58% 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 2.62% of the issued voting shares of the Company. Zheng Hui is also interested in 0.28% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 shares.

   Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 48.16% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian, Fitter Property Inc, Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 3.23%, 0.07% and 96.66%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"), Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian).

4. Leung Lim Kin, Simon is interested in 0.26% of the issued voting shares of the Company which is represented by beneficial interest of 1,363,530 Shares.

5. Chen Hongzhan is interested in 2.11% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.

6. Chao Guowei, Charles is interested in 0.17% of the issued voting shares of the Company which is represented by personal interest of 579,500 shares and the rest being the underlying shares of interest of 338,500 shares options granted by the Company.

7. Lee Kwan Hung is interested in 0.13% of the issued voting shares of the Company which is represented by personal interest of 274,019 shares and the rest being underlying shares of interest of 418,000 share options granted by the Company.

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

REPORT OF THE DIRECTORS

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

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2018, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 52 of the Notes to the Consolidated Financial Statements, no transaction, arrangement or contract of significance in relation to the Company's business, to which the Company was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

REPORT OF THE DIRECTORS

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

So far as is known to the Directors, as at 31 December 2018, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	**Name of Company**	**Capacity and nature of interests**	**Number of ordinary shares and underlying held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100(L)	35.97%
IDG Group *(Note 2)*	The Company	Beneficial owner	78,333,320(L)	14.75%
Ho Chi Sing *(Note 2)*	The Company	Through controlled corporations	78,333,320(L)	14.75%
Zhou Quan *(Note 2)*	The Company	Through controlled corporations	73,490,095(L)	13.84%
First Elite Group Limited *(Note 3)*	The Company	Beneficial owner and through controlled corporation	0(L)	0%
Jardine PTC Limited *(Note 3)*	The Company	Trustee	26,541,819(L)	5.00%

REPORT OF THE DIRECTORS

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

Notes:

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

2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.05%, 9.79%, 2.00% and 0.91% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

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

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

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

3. First Elite Group Limited was dissolved in November 2018. 26,541,819 shares directly by Richmond Holdings Limited, a company wholly-owned by First Elite Group Limited. First Elite Group Limited is in turn controlled by Jardine PTC Limited, which held relevant interest in trust for Liu Luyuan.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2018.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

ND STRUCTURE CONTRACTS

ND Cooperation Framework Agreement

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

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

ND Equity Interest Pledge Agreement

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

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

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

ND Equity Holders' Voting Rights Proxy Agreement

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

ND Other Contracts

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS

WAIVER FROM THE STOCK EXCHANGE AND ANNUAL REVIEW

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

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

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

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

The amount of revenue and assets subject to the contractual arrangements under the ND Structure Contracts and the Best Assistant Control Documents accounted for approximately 49.4% and 17.2% of the Group's total revenue and assets, respectively, for the year ended 31 December 2018.

The Company's independent non-executive Directors have reviewed the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents and confirmed that the relevant transactions carried out thereunder during the year ended 31 December 2018 have been entered into in accordance with the relevant provisions of the ND Structure Contracts, the ND Other Contracts and the Best Assistant Control Documents, have been operated so as to allow (a) the economic interest generated by NetDragon (Fujian) flows to TQ Digital and TQ Online; and (b) the economic interest generated by Fujian Huayu flows to Fujian Tianquan; and the new structure contracts (including the Best Assistant Control Documents) entered into, renewed and/or cloned during the year ended 31 December 2018 were entered into on terms that are fair and reasonable so far as the Company is concerned and in the interests of the shareholders of the Company as a whole.

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

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

Save for the entering into of the Best Assistant Control Documents, details of which are disclosed below, there were no other new arrangements pursuant to or under the contractual arrangements entered into, renewed or reproduced between the Group and the PRC operational entity during the year ended 31 December 2018, and there was no material change in the contractual arrangements and/or the circumstances during the year ended 31 December 2018.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Cooperation Framework Agreement

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

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

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Cooperation Framework Agreement (Cont'd)

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

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

Best Assistant Equity Interest Pledge Agreement

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

Best Assistant Exclusive Acquisition Rights Agreement

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Proxy Agreement

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

REASONS FOR ENTERING INTO THE CONTRACTUAL ARRANGEMENTS

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

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

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

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS (Cont'd)

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Cont'd)

ACTIONS TAKEN BY THE GROUP TO MITIGATE THE RISKS

During the year ended 31 December 2018, the Group has implemented the following measures to ensure the effective operation of the Structured Contracts and the Group' s compliance with the Previous Structured Contracts and the Structured Contracts:

- major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis；

- the Board will review the overall performance of and compliance with the Previous Structured Contracts and the Structured Contracts at least once a year；

- the Company will disclose the overall performance and compliance with the Previous Structured Contracts and the Structured Contracts in its annual/interim report to update the Shareholders and potential investors；

- the Directors will provide periodic updates in the annual/interim reports regarding the qualification requirements as stipulated under the FITE Regulations and the development of the Foreign Investment Law, including the latest relevant regulatory development as well as the plan and progress in acquiring the relevant experience to meet these qualification requirements; and

- the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Previous Structured Contracts and the Structured Contracts, review the legal compliance and to deal with specific issues or matters arising from the Previous Structured Contracts and the Structured Contracts

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

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

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

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

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

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

On 24 April 2015, NetDragon (Fujian) entered into the renewal recreation centre agreement (the "2015 Renewal Recreation Centre Agreement") with Fuzhou 851 for a period from 25 April 2015 to 24 April 2018. On 24 April 2018, NetDragon (Fujian) entered into the reneweal recreation centre agreement (the "2018 Renewal Recreation Centre Agreement"), pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at the Recreation Centre to the Group and its staff for a period from 25 April 2018 to 24 April 2021 at an annual fee of RMB9,500,000 (equivalent to approximately HKD11,780,000).

Further details of the 2018 Renewal Recreation Centre Agreement are set forth in the announcement of the Company dated 24 April 2018.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

On 28 December 2012, NetDragon (Fujian) entered into a new service agreement (the "2012 Service Agreement") with Fuzhou Tianliang for a period from 1 January 2013 to 31 December 2015. On 31 December 2015, NetDragon (Fujian) entered into a renewal service agreement (the "2015 Renewal Service Agreement") with Fuzhou Tianliang to renew the 2012 Service Agreement for a period from 1 January 2016 to 31 December 2018.

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

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

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

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

On 31 December 2018, NetDragon (Fujian) entered into the renewal service agreement (the "2018 Renewal Service Agreement") with Fuzhou Tianliang, pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2019 to 31 December 2021.

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

The aggregate annual caps of the 2018 Renewal Service Agreement for each of the three years ending 31 December 2021 are as follows:

	Year ended 31 December 2019	**Year ending 31 December 2020**	**Year ending 31 December 2021**
	RMB	RMB	RMB
Technical maintenance fees	4,245,954	4,670,549	5,137,604
After-sales service charges	19,814,452	21,795,897	23,975,487
	24,060,406	26,466,446	29,113,091

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

Further details of the 2018 Renewal Service Agreement are set forth in the announcement of the Company dated 31 December 2018.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

CONFIRMATION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have reviewed the above Transactions conducted during the year ended 31 December 2018 and confirmed that these Transactions:

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

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

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

(iv) have not exceeded their respective annual caps for the year ended 31 December 2018 as disclosed in the relevant announcements of the Company.

COMPLIANCE WITH DISCLOSURE REQUIREMENTS

The transactions under the 2018 Renewal Tenancy Agreement, the 2018 Renewal Recreation Centre Agreement and the 2018 Renewal Service Agreement are also disclosed in note 52 of the Notes to the Consolidated Financial Statements as related party transactions of the Group. For further details of the nature and extent of each of the connected person's interest in each of the Transactions, please refer to the section headed "Corporate Governance Report – Directors' Interest In Transaction, Arrangement or Contract" below. The Company has complied with the applicable requirements of Chapter 14A of the Listing Rules in respect of the continuing connected transactions.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

AUDITOR'S LETTER ON DISCLOSED CONTINUING CONNECTED TRANSACTIONS

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

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

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

The audit committee is primarily responsible for the review and supervision of the Group's financial reporting process, risk management and internal control system. It has met with the external auditors of the Group to review the accounting principles and practices adopted by the Company and the audited annual financial statements of the Group for the year ended 31 December 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Listing Rules and the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2018.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the year ended 31 December 2018 as contained in Appendix 14 of the Listing Rules.

A report on the principal corporate governance practices adopted by the Company is set out on pages 68 to 81.

PERMITTED INDEMNITY

The Bye-laws provides that each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

COMPETITION AND CONFLICT OF INTERESTS

None of the Director nor any of their respective associates, as defined in the Listing Rules, has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at 31 December 2018 and as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2018, the Company bought back a total of 899,000 shares on the Stock Exchange at an aggregate consideration of HKD12,042,864 before expenses. The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Details of the share buy-backs are as follows:

Month of purchase	Number of ordinary shares bought back	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HKD	HKD	HKD
January 2018	26,000	21.85	21.85	568,100
June 2018	89,000	17.10	16.78	1,513,340
December 2018	784,000	13.28	11.96	9,961,424

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2018.

REPORT OF THE DIRECTORS

PUBLIC FLOAT

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

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the "Share Option Scheme") to replace its previous share option scheme.

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

The Share Option Scheme became effective on 24 May 2018 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 53,341,969 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Share Option Scheme and 10.04% of the shares of the Company in issue as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HKD5 million, are subject to shareholders' approval in advance in a general meeting.

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

SHARE OPTION SCHEME (Cont'd)

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

Pursuant to the resolution of the Shareholders of the company dated 24 May 2018, the company adopted a new share option scheme (the "New Share Option Scheme") to replace the existing share option scheme which expired on 12 June 2018 (the "Existing Share Option Scheme"). As at the date of this report, no share options were granted and there were no outstanding share options under the New Share Option Scheme. Details of the share options outstanding and movement during the year ended 31 December 2018 are as follows:

Grantee	Date of grant	Exercise Price	As at 1 January 2018	Number of share options Granted	Exercised	Lapsed	As at 31 December 2018
		HKD					
Independent non-executive Directors							
Chao Guowei, Charles	04.12.2013	15.72	238,500	–	–	–	238,500
	31.03.2017	23.65	100,000	–	–	–	100,000
Lee Kwan Hung	04.12.2013	15.72	318,000	–	–	–	318,000
	31,03.2017	23.65	100,000	–	–	–	100,000
Liu Sai Keung, Thomas	23.04.2012	5.74	300,000	–	–	–	300,000
	04.12.2013	15.72	318,000	–	–	–	318,000
	31.03.2017	23.65	100,000	–	–	–	100,000
Others							
Employees	28.04.2011	4.80	359,367	–	14,375	1,500	343,492
	22.07.2011	4.60	8,000	–	–	–	8,000
	23.04.2012	5.74	175,717	–	25,600	–	150,117
	12.09.2012	7.20	50,250	–	–	–	50,250
	16.01.2013	11.164	277,275	–	25,950	–	251,325
	25.04.2014	14.66	278,000	–	–	–	278,000
	11.05.2015	27.75	194,000	–	60,000	–	134,000
Total			2,817,109	–	125,925	1,500	2,689,684

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Share Option Scheme disclosed above and set out in note 45 of Notes to the Consolidated Financial Statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

SHARE AWARD SCHEME

The Company

The Board approved and adopted the share award scheme (the "NetDragon Share Award Scheme") on 2 September 2008 and it was amended by the resolution passed on 31 August 2018 to extend a period of 10 years, 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 31 August 2018. The Board shall not grant any award of shares if the nominal value of awards in aggregate granted by the Board under the NetDragon Share Award Scheme is over 10% of the issued capital of the Company from time to time.

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

1,190,800 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company on 19 April 2018. 1,979,520 awarded shares granted to a number of selected participants were outstanding as at 31 December 2018. The awarded shares, which were purchased at a price of HKD18.96 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents duly signed by the Trustee and the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation letter from the Company that all vesting conditions having been fulfilled.

Among the 586,100 vested awarded shares as at 31 December 2018, a total of 290,890 awarded shares were vested by the Directors.

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

SHARE AWARD SCHEME (Cont'd)

The Company (Cont'd)

As at 31 December 2018, details of the awarded shares under the Share Award Scheme were as follows:

Average price per share (HKD) *(Note)*	**As at 1 January 2018**	**Number of shares granted during the year**	**Number of shares vested during the year**	**Number of granted shares outstanding during the year**	**As at 31 December 2018**
18.96	0	2,574,400	(517,470)	2,056,930	2,056,930

Note: These shares were purchased by the Trustee of the Share Award Scheme at an average price of HKD18.96 per share.

Best Assistant Education Online Limited ("Best Assistant")

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

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

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

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

As at 31 December 2018, 600,000 awarded shares were granted under the Best Assistant Share Award Scheme.

REPORT OF THE DIRECTORS

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

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

Assuming all of the Series A Preferred Shares are fully converted into ordinary shares of Best Assistant, the Company's interest in ordinary shares of Best Assistant will be reduced from 87.60% to approximately 79.25%.

As at 31 December 2018, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

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

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

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

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

As at 31 December 2018, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

REPORT OF THE DIRECTORS

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Deloitte Touche Tohmatsu ("Deloitte"), the auditor of the Company. A resolution will be submitted in the AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board

Leung Lim Kin, Simon
Vice Chairman

Hong Kong, 26 March 2019

CORPORATE GOVERNANCE REPORT

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

THE BOARD

The Board is composed of five executive Directors (including the Chairman and the Chief Executive Officer of the Company) and four non-executive Directors (of whom three are independent non-executive Directors), whose biographical details are set out in "Directors and Senior Management" section on pages 20 to 28. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relevant relationship to one another.

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

Duties of the Board including delegation to management

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

CORPORATE GOVERNANCE REPORT

Duties of the Board include:

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

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

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

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

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

During the year ended 31 December 2018, the Board held four meetings and the attendance of each of the Directors at Board, committee and general meetings held in 2018 is set out below:

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

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

CORPORATE GOVERNANCE REPORT

The CG Code provision E.1.2 requires that the Chairman of the Board should attend the annual general meeting of the Company ("AGM") and should invite the Chairman of the audit, remuneration, nomination and any other committee (as appropriate) to attend the AGM and in their absence, he should invite another member of the committee or failing this his duly appointed delegate(s) to attend. These persons should be available to answer questions at the AGM. Mr. Liu Dejian, the Chairman of the Board, could not attend the AGM of the Company held on 24 May 2018 as he had another engagement which was important to the Company's business. Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas both are members of the audit committee, attended the AGM held on 24 May 2018. Due to other commitment, the chairman of the audit committee, Mr. Chao Guowei, Charles did not attend the AGM of the Company held on 24 May 2018.

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

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

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

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

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

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT

With reference to the ND Structure Contracts entered into among TQ Digital, TQ Online and NetDragon (Fujian), the executive Directors, Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, are interested in an aggregate of 99.96% in NetDragon (Fujian). Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) on the other hand, including the ND Structure Contracts and the ND Other Contracts would technically constitute connected transactions. Details for the ND Structure Contracts and the ND Other Contracts are set out in pages 41 to 45 in the section of "Report of the Directors" under the paragraphs of "ND Structure Contracts".

With reference to the Best Assistant Control Documents entered into among Fujian Tianquan, an indirect wholly owned subsidiary of Best Assistant (Cayman), Fujian Huayu and NetDragon (Fujian), NetDragon (Fujian) and Fujian Huayu (being a subsidiary of NetDragon (Fujian)) are technically associates of Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company or its subsidiaries, except Best Assistant (Cayman) and subsidiaries of Best Assistant (Cayman) (the "Best Assistant Group Companies") on one hand and Best Assistant (Cayman) or Best Assistant Group Companies on the other hand, including the Best Assistant Control Documents would technically constitute connected transactions. Details for the Best Assistant Control Documents are set out in pages 46 to 50 in the section of "Report of the Directors" under the paragraphs of "Best Assistant Control Documents".

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

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

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

CORPORATE GOVERNANCE REPORT

Details for the continuing connected transactions are set out in pages 55 to 60 in the section of "Report of the Directors" under the paragraphs of "Continuing Connected Transactions".

Save as the above, none of the Directors is materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance of the Company during the year ended 31 December 2018 or as at the end of the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

AUDIT COMMITTEE

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

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

The Audit Committee held four meetings during the year ended 31 December 2018. The major work performed by the Audit Committee in respect of the year ended 31 December 2018 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2018, reviewing the audited financial statements and final results announcement for the year ended 31 December 2018, reviewing the work of the Group's internal audit and assessing the effectiveness of the Group's systems of internal control, risk management, corporate governance and cost control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, and training programs and budget.

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

The written terms of reference are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

The Board, based on the review of the Audit Committee, is satisfied that the Group has maintained sound and effective risk management and internal control systems for the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

During the year ended 31 December 2018, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company as well as the remuneration of senior management staff. The Remuneration Committee also reviewed the remuneration of the Directors by assessing their performance and with reference to the remuneration level of directors of comparable listed companies and also approved the terms of the executive Directors' service contracts.

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

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

EMPLOYEE AND EMOLUMENT POLICY

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

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

The Group has adopted the Share Option Scheme, the NetDragon Share Award Scheme and the Best Assistant Share Award Scheme to motivate Directors and eligible employees. Details of the schemes are set out in the paragraphs headed "Share Option Scheme" and "Share Award Scheme". None of the directors waived any emoluments during the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

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

During the financial year ended 31 December 2018, a meeting was held to review the structure, size and composition of the Board and assessed the independence of the three independent non-executive Directors of the Company. The Nomination Committee is of the view that the current Board demonstrates a balanced composition with sufficient independence element.

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

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

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

The following is a summary of the board diversity policy:

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

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION POLICY

The Nomination Committee recommends candidates for nomination to the Board, which approves the final choice of candidates. The Nominaton Committee was responsible to maintain the nomination policy of the Company (the「Nomination Policy」) and review the same regularly. The objective of the Nomination Policy is to assist the Company in fulfilling its duties and responsibilities as provided in its terms of reference. This Nomination Policy sets out, inter alia, the selection criteria and the evaluation procedures in nominating candidates to be appointed or re-appointed as Directors of the Company.

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

(a) Reputation for integrity；

(b) Accomplishment, experience and reputation in the business and other relevant sectors relate to the Company and/or its subsidiaries；

(c) Commitment in respect of sufficient time and attention to the Company' s business；

(d) Diversity in all aspects, including but not limited to gender, age, cultural/educational and professional background, skills, knowledge and experience；

(e) The ability to assist and support management and make significant contributions to the Company' s success；

(f) Compliance with the criteria of independence as prescribed under Rule 3.13 of the Rules Governing the Listing of Securities on Main Board of The Stock Exchange of Hong Kong Limited for the appointment of an independent non-executive Director; and

(g) Any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

The Committee believes that independence is an important part of fulfilling the Directors' duty to supervise the management of the business and affairs of the Company. Non-executive Directors and Executive Directors are required to disclose his/her competing businesses to the Company. Cross-directorships in Hong Kong or overseas between Directors are also reviewed annually. The Nomination Committee is accountable for assessing whether any competing businesses or interlocking directorships could materially interfere with the exercise of objective and unfettered judgement by relevant Directors or their ability to act in the best interests of the Group.

CORPORATE GOVERNANCE REPORT

ND MANAGEMENT COMMITTEE

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

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

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

BEST ASSISTANT MANAGEMENT COMMITTEE

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

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

CORPORATE GOVERNANCE REPORT

SHARE AWARD SCHEME COMMITTEE

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

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

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. The Directors confirmed that they have complied with the Code Provision A.6.5 of the CG Code effective on 1 April 2012 on Directors' training. In 2018, all Directors have participated in continuous professional development by reading materials/in house briefing on regulatory and corporate governance matters to develop and refresh their knowledge.

DIRECTORS' INSURANCE

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

AUDITOR'S REMUNERATION

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

	RMB'000
Audit services	6,497
Non-audit services	626
	7,123

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

The statements of the Company's external auditors regarding their responsibilities on the financial statements are set out in the Independent Auditor's Report on pages 93 to 97.

COMPANY SECRETARY

Mr. Lau Hak Kin, Financial Controller and Head of Compliance and Corporate Affairs of the Company, has been appointed by the Company as company secretary since September 2014. He is also the primary contact person of the Company. During the year ended 31 December 2018, Mr. Lau Hak Kin has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

CORPORATE GOVERNANCE REPORT

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

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

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

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

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

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

CORPORATE GOVERNANCE REPORT

SUFFICIENCY OF PUBLIC FLOAT

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

DIVIDEND POLICY

Dividend Policy is adopted and approved by the board of directors of the Company as the guideline on dividend distribution regarding future dividends to be paid by the Company with effect from 26 March 2019. The Company is committed to maintaining sufficient resources and flexibility to meet the Company' s financial and operational requirements. At the same time, the Company continually seeks ways to enhance shareholders' value to ensure sustainable long-term yields for shareholders.

The dividend payout ratio shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Company' s financial results, future prospects and other factors, and subject to:

- the Articles of Association of the Company；
- the applicable restrictions and requirements under the laws of the Cayman Islands；
- any banking or other funding covenants by which the Company is bound from time to time；
- the investment and operating requirements of the Company; and
- any other factors that have material impact on the Company.

Under the Cayman Islands Companies Act and the Articles of Association of the Company, all of our shareholders have equal entitlement to dividends and distributions. The Board shall have the right to review the Dividend Policy from time to time as it deems fit according to the financial and business development requirements of the Company.

SHAREHOLDERS RELATIONS

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

There has not been any significant change in the Company's constitutional documents during the year ended 31 December 2018.

The AGM will be held at Plaza Meeting Room, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 6 June 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL PROTECTION

Emissions

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

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

Protection of Environment

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

Energy Conservation

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIETY

I. Employment

The Group offers equal opportunities to all job seekers regardless of race, color, nationality, religion, gender, age, disability or other bias prohibited by any other relevant laws. The policy of the Group is to select the most suitable person who corresponds to particular job requirements taking into account of educational background, working experiences, skills, personal integrity and considerations such as potential to grow in line with the Group. The Group treats every staff with equality and none of their appointment, remuneration packages and promotions will be affected on the grounds of their social identity, such as race, ethnicity, nationality, gender, religion, age, sexual orientation, political grouping and marital status.

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

II. Health and Safety

Health and safety of employees are the most important obligations concerned by the Group. Our management team endeavors to identify, assess and eliminate possible health and safety risks existing in our operations. During the past year, no material work-related health and safety incidents had occurred in the Group.

1. Safety

1.1 Security staff are deployed on duty for 24 hours a day to monitor full coverage of all working venues, they will conduct patrols and inspections strictly to ensure a safe working environment. A fire station and a corporate fire services branch have been established and equipped with fire-fighting equipment. Meanwhile, training sessions on fire safety are organized for all staff from time to time, such as fire and evacuation drills, explosion prevention drills, rescue drills for lift-trapped victims, and drills for drowning prevention, to ensure the safety of company staff under all circumstances.

1.2 We have formulated safety standards and rules for practices and operations in various job positions, accompanied by a comprehensive training program, to ensure the operational safety of employees.

2. Health

2.1 We provide a comprehensive environmental safety protective system to ensure that employees are working in a toxic-free and harmless environment.

2.2 The Group has established strict rules for various processes, such as procurement, acceptance inspection and equipment maintenance, to ensure food safety and normal operation of equipment.

2.3 The Group will organize an annual medical examination for all staff, and a medical clinic has been established inside the Company, managed by recruited professional doctors and nurses and equipped with required facilities, to ensure that diagnosis and treatment are provided for common diseases, and preliminary treatment will be provided to accidental injury cases for timely transfer to hospital for further treatment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

III. Development and Trainings

Staff Training

NetDragon University is a base for nurturing management and technological talents of the Group. As a powerful support and an important part of the overall strategy of the Group, NetDragon University is committed to providing professional and systematic training services to staff. In 2018, in view of the tactical and business requirements of the Group, NetDragon University established a new direction for training based on new organizational structure (two centres + two laboratories: Digital Education Practical Training Centre, Skills Development Centre, E-learning Training Office, to deepen functions and application internally and promote effects with a focus on business externally.

Achievements for the year of 2018

To support strategic development and key businesses of the Company, continued efforts were dedicated to external VR training during the first half of 2018, with focus on the core business of the Company to meet the needs of various business departments with quick response. Through VR/augmented reality ("AR") related skill training, establishment of certification system and promotion of information technology training for education (from Fujian Province to nationwide in China), the relevant projects in education business of the Company were assisted to achieve annual goals and upgrading of service targets. Also, in response to the request for upgrading employees in key positions made by the Company at the beginning of the year, deeper cooperation with the engineering institute and the programming centre was formed to upgrade the skills of key positions. In management training, the development, improvement, promotion and application of training solutions were managed through the 7-step Qianlong series for management positions (art centre, programming centre and Taihe Yayu) according to the Company's requirements of competent standards for management positions to assist management upgrading of the Company in 2018.

In 2018, NetDragon University organized a total of 469 various training events with total attendance of 12,476 participants.

1. External Training:

VR Training Project: External training was organized through practical training in digital education to facilitate quick response to meet the needs of business departments in the key businesses of the Company. Operating projects undertaken in 2018 included: projects of Hong Kong branch companies (such as visits of teacher groups, Christmas course and summer learning tours), overseas strategic cooperation projects (such as experience camps and classes held in Thailand and Singapore), training course for upgrading IT education capabilities in vocational institutions across the nation, training course organized in 2018 for upgrading IT education capabilities of skeleton teachers in vocational institutions in Fujian Province, and the training course organized in 2018 on IT leadership capabilities for principals of tertiary and vocational institutions in Fujian Province. Among these, the project of summer learning tour in Hong Kong and the overseas strategic cooperation projects adopted "101 Creative Thinking World", a strategic product of the Company, as the core practical program. Meanwhile, the Company's products were introduced for use in various external trainings. During the first half of the year, the VR Training Centre organized a total of 34 training events with various themes and attended by 1,442 participants.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Internal Training:

Experimental application of Huayu Education concepts, methods and tools in NetDragon and feedback report: The topics, proposals and plans for experimental application of Huayu Education concepts, methods and tools were completed, including the application and feedback of DJ Education related methodology in corporate training and vocational education, the application of 99U learning platform.

Management Training Project: Based on the competence requirements for management positions in the Company, in 2018, the management training projects were attended by 168 participants.

3. Routine Training Projects:

Skills Training: During the year, a total of 77 courses were organized on various topics of skills and attended by 2,505 participants.

Experience Training: The development of 25 teams was completed during the year, including 天晴互娛 , Heroes Evolved, 101 Education Platform, Overseas Business Department and Art Centre, with attendance from 1,306 participants.

New Staff Training: During the year, a total of 24 training sessions were organized for new staff with a total number of 926 participants.

Certification Projects: Design Theory Primary Certification: During the year, a total of 19 sessions of design theory primary certification were organized and attended by a total of 823 participants.

Skills Certification by Engineering Institute: The skills certification by Engineering Institute included primary certification for 6 skill directions, primary certification of programming design, primary certification of database, structural design, demand analysis and Java intermediate level certification.

Duty Certification for Programming Centre Positions: It involved 14 skill directions (including 4 new certifications for the year of 2018): C++coding standards, Android coding standards, JAVA coding standards, C++ development certification, SVN source code management certification, STL certification, MySQL certification, UML certification, U3D technical certification, safety technology certification, certification on general knowledge of games, Git customer-end certification, Git instruction certification and Egret development certification, and a total of 514 participants had passed the certification.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IV. Labour practices

The Group has been in strict compliance with the Employment Ordinance and in no circumstances engaged in any forced labour or child labour.

V. Management of the Supply Chain

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

In 2018, Promethean had a total of 17 key suppliers. The geographical split of these suppliers was as follows:

Indicators	2018	2017	2016	2015
Number of Key suppliers[1]	**23**	17	15	11
By region:				
Asian countries other than PRC and Hong Kong	**2**	2	4	1
Australia	**0**	0	0	0
UK	**2**	0	0	1
US	**11**	5	1	1
PRC	**6**	7	5	4
Hong Kong	**1**	1	4	3
European Countries other than UK	**1**	2	1	1
Total amounts invoiced by key suppliers (£ million)	**246.9**	183.7	95.8	90.7

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Promethean has a rigorous supplier on-boarding process that is undertaken in respect of significant suppliers of products to the Group. This process includes a review of quality processes, Health & safety, training & development, labour ethics and the environment. The Promethean's operations team periodically visit significant suppliers in the normal course of business.

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

Among the engaging suppliers, key ODM suppliers are managed by the Quarterly Business Review (QBR) process.

Promethean's 2 suppliers of Interactive Flat Panels account for 70% of total company spend are managed by the QBR process. Other Key suppliers based on pareto 80% value are managed by 6 or 12 month business reviews. These are implemented and monitored by way of a QBR presentation pack which is produced for the review meeting and subsequent actions logged and reviewed/closed out at the following meeting.

In 2018, Promethean was not aware of any incidents of non-compliance with regulations and voluntary codes concerning the provision and use of the Group's products and services, including but not limited to, product and service information and labelling, marketing communications including advertising, promotion and sponsorship, and property rights including intellectual property rights that have a significant impact on the Group.

Promethean Limited has transitioned and is now certified to the revised International Environmental Management Systems Standard ISO 14001: 2015. An Environmental Management System is a structured framework used by organizations to manage and reduce their impact on the environment.

It brings with it many benefits for a business, including:

- Reduced impact on the environment to maintain a healthy planet for future generations
- Legal compliance
- Reduced operational costs by improving efficiency
- Competitive advantage during a tender process

Promethean has had no health & safety related product recalls during the four years ended 31 December 2018.

During the four years ended 31 December 2018, Promethean has had no significant product failures. Any normal run rate failures are covered by Promethean's warranty offerings.

Promethean also monitors customer feedback and product related enquiries. Of the customer enquiries received over the course of the four years ended 31 December 2018, less than 1% of such enquiries result in a complaint. The complaints are dealt with on a case by case basis via feedback Customer Satisfaction surveys. These are dealt with by a dedicated team who record the feedback and in return contact the customers in order to best resolve the complaint.

ClassFlow™ and Data Privacy

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

Quality Assurance

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VI. Product Liability

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

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

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

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

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

4. Establishment of a quality monitoring and control system through online dial testing, by performing regular/triggered dial testing tasks automatically to discover production defects in a timely manner, instant monitoring and control of product quality can be guaranteed;

VII. Anti-corruption

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

VIII. Community Contribution (Public Service Activities)

1. In January 2018, the Company organized the First Member Representatives' Conference and 2017 Annual General Meeting of the Innovation and Venture Capital and Incubator Service Alliance of Universities in Fujian Province at the Haixi (NetDragon) Animation Creativity City. After initiated by the Conference, the Fujian Public Welfare Foundation "Red Dream-Building Trip for Youths – Assistance to Overcome Challenges in Poverty Alleviation" ("青年紅色築夢之旅 – 助力脫貧攻堅") was formally unveiled and established. The foundation will be used specifically in investment projects which can help poverty-stricken regions to eliminate poverty, promote economic development in poverty-stricken regions, and enhance the innovation and enterprising capabilities of university students.

2. In March 2018, more than 30 teachers and students from St. Paul's Convent School of Hong Kong participated in the VR experience camp of NetDragon Websoft Inc. The products of NetDragon, including VR technology and 101Creative Thinking World, brought entirely new teaching and learning experience to teachers and students participating in the experience camp.

3. In June 2018, Fujian Preschool Education College (福建幼兒師範高等專科學校) and the Company organized friendship activities at the AR/VR preschool education and resources application center in Fujian Province. 100 kids from affiliated kindergartens celebrated "1 June" happily through experiencing the AR interactive sand pits, VR treasure hunt at seabed, immersive projection, MR, 101 reading robot and other projects at the site of activities.

4. In June 2018, 33 teachers and students from Institute of Technical Education of Singapore visited the Company for two weeks of learning, exchange and practical activities. Through learning the practical application of related products, including 101 Creative Thinking World and 101 Education PPT, and focusing on the learning and practice of VR content creation by using 101 Creative Thinking World, conclusion on experience was exchanged and shared.

5. In July 2018, in order to arouse social concern for children with advanced stage of brain tumors, the Eudemons Online game initiated the "Lemon Challenge" to explore different "methods" of eating lemon. Under the urge of these creative calls, many players participated in the caring relay.

6. In July 2018, the Company initiated the "2018 Inter-national Summer Intern" project. By liaising with worldwide target universities and colleges, biographies from student applicants were screened and 20 interns from different places around the world were recruited to learn and live in the Company. Trainers guided them to perform brainstorming on design ideas based on the self-developed design methodology of the Company as the core program.

7. In July 2018, the Chuntian Crazy Festival was held by NetDragon, a charity zone for sales of used items was es-tablished in the activity area, the proceeds from charitable sales were fully donated to caring institutions.

8. On 23 July 2018, the summer camp for good youths with the theme of "Close relations between Fujian and Tibet Grateful to Party" ("閩藏親 感恩黨") was held in Changdu city by NetDragon. "Young visitors" from Tibet visited the Haixi (NetDragon) Animation Creativity City, experienced VR, canoeing, golf and other activities.

9. In September 2018, a small sub-team of the Company went to Changding for conducting survey and research, and donated 101 smart education software to new students at primary one level of Liuyuan Primary School in Hetian Township, so that students in the mountain regions could learn skills through internet linkage by using the smart equipment of the Company, as well as to acquire more extra-curricular knowledge and to facilitate development of rural education.

10. On 28 September 2018, the "National Flag Running Race" was held at the Changle base of NetDragon, the event attracted participation by several hundreds of employees, who sent their respect and best wishes for celebrating the 69th anniversary of the National Day of the PRC with action.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

11. In October 2018, NetDragon participated and sponsored the final round of the Fourth "Internet+" Innovation and Venture Capital Contest for University Students in China. Through site inspection, picking outstanding projects, providing campus recruitment positions, comprehensive as-sistance was provided to convert the contest results into a fruitful event.
12. On 28 October 2018, more than 30 employees of the Company participated in the "Fuzhou City Happy Running Race" ("福州城市樂跑") and fully showed their spirit of self-surpassing, passion to do their best and optimistic personality in the event.
13. In November 2018, the red education program of NetDragon Huayu Education was invited by the Cultural and Tourism Department of Fujian Province to present the product series of "VR+ Culture" and received attention and enquiries from a large audience and many customers, as well as hot discussions and good comments from government leaders, media and peers in the industry.
14. On 16 December 2018, NetDragon adhered to its objectives of facilitating the sharing of best practices and cross-sector exchanges for innovations, and launched the MAD technology forum by integrating internal and external resources, attracting talents and technological thinking.
15. On 21 December 2018, the donation ceremony of Qingling K12 leadership education program was held by Tsinghua University Education Foundation. These donations will be used for the Qingling K12 leadership education program, which is a program jointly developed by Tsinghua University and NetDragon Huayu Education for nurturing leadership at K12 stage.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF NETDRAGON WEBSOFT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 98 to 248, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Cont'd)

Key audit matter	**How our audit addressed the key audit matter**
Revenue and contract liabilities recognition of online and mobile game revenue	
We identified the revenue and contract liabilities recognition of online and mobile game revenue as a key audit matter due to the involvement of significant management estimates. Online and mobile game revenue of approximately RMB2,367,405,000 for the year ended 31 December 2018 was recognised after the actual usage of the game points in the online and mobile games by the customers for obtaining virtual products or premium features. Advance received in respect of unutilised game points and those arising from unactivated pre-paid game cards is recognised as contract liabilities. The Group currently has different distribution and payment channels, including direct sales (by online payment systems and other direct sales channels) and pre-paid card sales through distributors. Online and mobile game income received is net of discounts given to certain distributors. As to the amount of contract liabilities in respect of unutilised game points, management's estimation is required in determining the estimated average sales value of these unutilised game points as discounts given are different for different distributors. In assessing the amount of estimated average sales value for the unutilised game points, management considers the discount rate applicable to each of the distributor and the income received via different distributors. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at the end of the reporting period. The estimated average sales value of each game point is then determined by factoring the average discount rate to the monetary value of the game point. If the actual sales value of the unutilised game points differs from management's estimates, the amount of contract liabilities as well as online and mobile game revenue would be affected. The key estimates involved are described in in Note 4 to the consolidated financial statements.	Our procedures in relation to revenue and contract liabilities recognition of online and mobile game revenue included: • evaluating both the manual and automated controls over the revenue recognition process in respect of online and mobile game revenue; • evaluating the reasonableness of the average discount rate of the unutilised game points adopted by the management by performing recalculation with reference to monetary value of game points recharged and discounts offered to distributors; • obtaining calculation of online and mobile game revenue and performing recalculation of the revenue with reference to game points utilised by customers and estimated average sales value for each game point during the year using computer-assisted audit techniques; • performing recalculation of the corresponding contract liabilities with reference to the unutilised game points and average sales value for each game point; and • obtaining the report which contain the unutilised game points generated by the computer system and performing testing, on a sample basis, by computer-assisted audit techniques.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and intangible assets We identified the impairment of goodwill and intangible assets arising from historical acquisitions as a key audit matter due to the use of management's estimation of the value in use of the cash-generating units to which goodwill and intangible assets are allocated, in the course of management's impairment assessment. In management's impairment assessment, it requires the estimation of the recoverable amount of the cash-generating units to which goodwill and intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to identify cash-generating units, estimate growth rates in cash flow forecasts and suitable discount rate applied to these forecasts in order to calculate the present value. The carrying amounts of goodwill and intangible assets were RMB390,640,000 and RMB824,991,000 respectively as at 31 December 2018. Details of goodwill and intangible assets and the impairment testing of goodwill and intangible assets with indefinite useful lives are disclosed in Notes 23, 17 and 24 to the consolidated financial statements respectively.	Our procedures in relation to the impairment of goodwill and intangible assets included: • obtaining approved cash flow forecasts from management, and assessing the reasonableness of the assumptions and methodologies used by management in their impairment assessment by comparing the cash flow forecasts, growth rates and discount rate used in the budget to the future business plan, market data and industry benchmarks; • evaluating the accuracy of management's forecasts by comparing previous forecasts with historical results; and • evaluating the sensitivity analysis of the forecasts for reasonably possible change in any of the assumptions made.

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**5,037,539**	3,867,623
Cost of revenue		**(1,990,298)**	(1,687,860)
Gross profit		**3,047,241**	2,179,763
Other income and gains	5	**118,189**	95,393
Impairment loss, net of reversal	7	**(11,717)**	(275)
Selling and marketing expenses		**(697,871)**	(624,716)
Administrative expenses		**(853,180)**	(734,560)
Development costs		**(922,867)**	(844,076)
Other expenses and losses	5	**(150,308)**	(100,134)
Share of losses of associates		**(1,370)**	(822)
Share of loss of a joint venture		**(1,717)**	(567)
Operating profit (loss)		**526,400**	(29,994)
Interest income on pledged bank deposits		**3,607**	2,558
Exchange (loss) gain on secured bank borrowings and convertible preferred shares		**(10,030)**	3,250
Net gain on convertible preferred shares	40	**60,659**	2,809
Net loss on disposal of property held for sale	35	**(68)**	–
Net fair value gain on held-for-trading investment		**–**	58
Finance costs	6	**(12,415)**	(10,409)
Profit (loss) before taxation		**568,153**	(31,728)
Taxation	9	**(91,349)**	(57,209)
Profit (loss) for the year	10	**476,804**	(88,937)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
Other comprehensive income (expense) for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**4,332**	9,174
Fair value loss on an available-for-sale investment		**–**	(17,385)
Release of reserve upon impairment of an available-for-sale investment		**–**	28,687
		4,332	20,476
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		**(9,366)**	–
Other comprehensive (expense) income for the year		**(5,034)**	20,476
Total comprehensive income (expense) for the year		**471,770**	(68,461)
Profit (loss) for the year attributable to:			
– Owners of the Company		**545,573**	(20,843)
– Non-controlling interests		**(68,769)**	(68,094)
		476,804	(88,937)
Total comprehensive income (expense) for the year attributable to:			
– Owners of the Company		**541,430**	(3,168)
– Non-controlling interests		**(69,660)**	(65,293)
		471,770	(68,461)
		RMB cents	RMB cents
Earnings (loss) per share	13		
– Basic		**102.42**	(4.12)
– Diluted		**102.27**	(4.12)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	14	1,657,417	1,373,026
Prepaid lease payments	15	293,228	515,299
Investment properties	16	77,281	64,532
Intangible assets	17	824,991	715,578
Interests in associates	18	23,591	15,961
Interest in a joint venture	19	15,716	17,433
Available-for-sale investments	20	–	10,859
Equity instruments at fair value through other comprehensive income	21	1,493	–
Loan receivables	22	12,850	18,410
Trade receivables	26	–	3,912
Prepayments and deposits	30	45,564	–
Contract assets	31	2,389	–
Restricted bank deposit	34	–	5,000
Deposits made for acquisition of property, plant and equipment		7,698	7,441
Goodwill	23	390,640	388,675
Deferred tax assets	25	38,169	4,160
		3,391,027	3,140,286
Current assets			
Properties under development	27	536,848	160,141
Property held for sale	35	–	9,213
Inventories	28	267,420	106,430
Prepaid lease payments	15	6,636	9,866
Loan receivables	22	16,078	4,662
Trade receivables	26	450,435	380,072
Amounts due from customers for contract work	29	–	16,522
Other receivables, prepayments and deposits	30	320,360	255,948
Contract assets	31	29,775	–
Amount due from a related company	32	140	1,704
Amounts due from associates	33	2,105	5,264
Amount due from a joint venture	33	751	159
Tax recoverable		1,126	1,497
Restricted bank balances	34	15,089	20,332
Pledged bank deposits	34	156,168	145,084
Bank deposit over three months	34	68,632	–
Bank balances and cash	34	1,483,352	1,578,477
		3,354,915	2,695,371

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Current liabilities			
Trade and other payables	36	**783,040**	680,736
Contract liabilities	37	**412,462**	–
Amounts due to customers for contract work	29	**–**	1,691
Provisions	38	**59,936**	41,246
Deferred income		**–**	95,531
Amount due to a related company	39	**982**	1,400
Amounts due to associates	39	**720**	305
Secured bank borrowings	41	**155,157**	146,132
Promissory note	42	**–**	46,226
Tax payable		**70,095**	23,339
		1,482,392	1,036,606
Net current assets		**1,872,523**	1,658,765
Total assets less current liabilities		**5,263,550**	4,799,051
Non-current liabilities			
Other payables	43	**22,219**	2,693
Convertible preferred shares	40	**108,904**	95,249
Secured bank borrowings	41	**169,604**	86,582
Deferred tax liabilities	25	**163,843**	130,466
		464,570	314,990
Net assets		**4,798,980**	4,484,061

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
Capital and reserves			
Share capital	44	**38,863**	39,094
Share premium and reserves		**4,893,941**	4,510,073
Equity attributable to owners of the Company		**4,932,804**	4,549,167
Non-controlling interests		**(133,824)**	(65,106)
		4,798,980	4,484,061

The consolidated financial statements on pages 98 to 248 were approved and authorised for issue by the Board of Directors on 26 March 2019 and are signed on its behalf by:

Zheng Hui	**Leung Lim Kin, Simon**
Director	Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company															
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000 (Note a)	Other reserve RMB'000 (Note b)	Capital reserve RMB'000 (Note c)	Statutory reserves RMB'000 (Note d)	Dividend reserve RMB'000	Revaluation reserve RMB'000	Treasury share reserve RMB'000 (Note e)	Employee share-based compensation reserve RMB'000	Translation reserve RMB'000	Available-for-sale investment/ equity instruments at fair value through other comprehensive income reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	36,571	830,126	6,155	28,170	10,035	292,864	44,374	22,449	(2,120)	20,357	(118,365)	(11,302)	2,694,515	3,853,829	(25,552)	3,828,277
Loss for the year	–	–	–	–	–	–	–	–	–	–	–	–	(20,843)	(20,843)	(68,094)	(88,937)
Other comprehensive income for the year	–	–	–	–	–	–	–	–	–	–	6,373	11,302	–	17,675	2,801	20,476
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	–	–	–	6,373	11,302	(20,843)	(3,168)	(65,293)	(68,461)
Repurchase and cancellation of shares	(201)	(48,946)	201	–	–	–	–	–	–	–	–	–	(201)	(49,147)	–	(49,147)
Shares issued upon exercise of share options	169	15,906	–	–	–	–	–	–	–	(4,983)	–	–	–	11,092	–	11,092
Issue of new shares	2,555	818,366	–	–	–	–	–	–	–	–	–	–	–	820,921	–	820,921
Contributions from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	26,382	26,382
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	5,014	–	–	–	5,014	–	5,014
Awarded shares vested to employees	–	–	–	–	–	–	–	–	1,168	(3,754)	–	–	2,586	–	–	–
Deemed disposal of subsidiaries to non-controlling shareholders	–	–	–	1,975	–	–	–	–	–	–	–	–	–	1,975	(1,975)	–
Acquisition of additional equity interests from non-controlling interests	–	–	–	(3,754)	–	–	–	–	–	–	–	–	–	(3,754)	1,332	(2,422)
Final dividend for 2016 paid	–	–	–	–	–	–	(44,374)	–	–	–	–	–	(84)	(44,458)	–	(44,458)
Interim dividend for 2017 declared and paid	–	–	–	–	–	–	–	–	–	–	–	–	(43,137)	(43,137)	–	(43,137)
Final dividend for 2017 proposed	–	–	–	–	–	–	44,661	–	–	–	–	–	(44,661)	–	–	–
Transfers	–	–	–	–	–	43,542	–	–	–	–	–	–	(43,542)	–	–	–
	2,523	785,326	201	(1,779)	–	43,542	287	–	1,168	(3,723)	–	–	(129,039)	698,506	25,739	724,245
At 31 December 2017	39,094	1,615,452	6,356	26,391	10,035	336,406	44,661	22,449	(952)	16,634	(111,992)	-	2,544,633	4,549,167	(65,106)	4,484,061
Profit (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	545,573	545,573	(68,769)	476,804
Other comprehensive income (expense) for the year	-	-	-	-	-	-	-	-	-	-	5,191	(8,340)	(994)	(4,143)	(891)	(5,034)
Total comprehensive income (expense) for the year	-	-	-	-	-	-	-	-	-	-	5,191	(8,340)	544,579	541,430	(69,660)	471,770
Repurchase and cancellation of shares	(239)	(49,435)	239	-	-	-	-	-	-	-	-	-	(239)	(49,674)	-	(49,674)
Shares issued upon exercise of share options	8	2,615	-	-	-	-	-	-	-	(862)	-	-	-	1,761	-	1,761
Purchase of treasury shares	-	-	-	-	-	-	-	-	(39,324)	-	-	-	-	(39,324)	-	(39,324)
Contributions from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	127	127
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	21,531	-	-	-	21,531	-	21,531
Awarded shares vested to employees	-	-	-	-	-	-	-	-	7,094	(9,012)	-	-	1,918	-	-	-
Deemed disposal of subsidiaries to non-controlling shareholders	-	-	-	149	-	-	-	-	-	-	-	-	-	149	(149)	-
Acquisition of additional equity interests from non-controlling interests	-	-	-	(2,867)	-	-	-	-	-	-	-	-	-	(2,867)	852	(2,015)
Final dividend for 2017 paid	-	-	-	-	-	-	(44,661)	-	-	-	-	-	72	(44,589)	-	(44,589)
Interim dividend for 2018 declared and paid	-	-	-	-	-	-	-	-	-	-	-	-	(44,780)	(44,780)	-	(44,780)
Final dividend for 2018 proposed	-	-	-	-	-	-	69,809	-	-	-	-	-	(69,809)	-	-	-
Deregistration of a subsidiary	-	-	-	-	-	(354)	-	-	-	-	-	-	354	-	112	112
Transfers	-	-	-	-	-	69,735	-	-	-	-	-	-	(69,735)	-	-	-
At 31 December 2018	38,863	1,568,632	6,595	23,673	10,035	405,787	69,809	22,449	(33,182)	28,291	(106,801)	(8,340)	2,906,993	4,932,804	(133,824)	4,798,980

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Notes:

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

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit (loss) for the year	**476,804**	(88,937)
Adjustments for:		
Taxation	**91,349**	57,209
Finance costs	**12,415**	10,409
Depreciation of property, plant and equipment	**157,347**	159,498
Amortisation of intangible assets	**87,976**	83,728
Amortisation of prepaid lease payments	**6,589**	13,211
Impairment of goodwill	**68,372**	–
Impairment of property held for sale	**–**	1,625
Impairment of loss, net of reversal	**11,717**	275
Release of reserve upon impairment of an available-for-sale investment	**–**	28,687
Impairment of inventories	**1,670**	13,306
Net loss on disposal of property, plant and equipment	**832**	1,867
Net loss on disposal of property held for sale	**68**	–
Loss on deregistration of a subsidiary	**112**	–
Net gain on convertible preferred shares	**(60,659)**	(2,809)
Net fair value gain on held-for-trading investment	**–**	(58)
Gain on fair value change of investment properties	**(9,310)**	(10,726)
Interest income	**(16,935)**	(9,624)
Share-based payments	**21,658**	5,035
Share of losses of associates	**1,370**	822
Share of loss of a joint venture	**1,717**	567
Write-off of intangible assets	**7,788**	–
Write back of deposit paid for acquisition of property, plant and equipment	**–**	(1,162)
Operating cash flows before movements in working capital	**860,880**	262,923

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
(Increase) decrease in inventories	**(162,660)**	5,549
Increase in trade receivables	**(76,628)**	(14,151)
Increase in amounts due from customers for contract work	**–**	(5,882)
Increase in contract assets	**(11,156)**	–
Increase in other receivables, prepayments and deposits	**(109,788)**	(114,262)
Decrease in amounts due from associates	**3,159**	3,297
Increase in properties under development	**(156,094)**	–
Increase in trade and other payables	**195,799**	118,335
Increase in contract liabilities	**228,720**	–
Increase in amounts due to customers for contract work	**–**	703
Increase in deferred income	**–**	10,964
Increase (decrease) in provisions	**19,484**	(7,818)
(Decrease) increase in amount due to a related company	**(418)**	422
Increase (decrease) in amounts due to associates	**415**	(4,253)
Decrease in held-for-trading investment	**–**	151,841
Cash generated from operations	**791,713**	407,668
Interest paid	**(11,755)**	(9,975)
Income tax paid	**(85,827)**	(60,621)
NET CASH FROM OPERATING ACTIVITIES	**694,131**	337,072

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(431,434)**	(342,596)
Placement of bank deposits over three months		**(266,960)**	–
Acquisition of subsidiaries	46	**(92,425)**	(2,365)
Purchase of intangible assets		**(71,518)**	(37,552)
Advance of loan receivables		**(12,015)**	(6,817)
Deposits made for acquisition of property, plant and equipment		**(10,128)**	(10,583)
Investment in an associate		**(9,000)**	–
Purchase of prepaid lease payments		**(1,901)**	(23,355)
Advance to a joint venture		**(592)**	(159)
Placement of pledged bank deposits		**(160)**	(145,089)
Withdrawal of bank deposits over three months		**206,053**	54,858
Interest received		**15,690**	8,360
Proceeds from disposal of property held for sale		**8,857**	–
Repayment of loan receivables		**6,719**	17,315
Withdrawal of restricted bank balances		**5,243**	–
Withdrawal of restricted bank deposit		**5,000**	–
Repayment from a related company		**1,564**	–
Proceeds from disposal of property, plant and equipment		**1,252**	1,751
Withdrawal of pledged bank deposits		**105**	393
Placement of restricted bank balances		**–**	(20,332)
Investment in a joint venture		**–**	(18,000)
Purchase of property held for sale		**–**	(11,238)
Purchase of available-for-sale investments		**–**	(10,361)
Placement of restricted bank deposit		**–**	(5,000)
Refund of deposit made for acquisition of property, plant and equipment		**–**	5,000
NET CASH USED IN INVESTING ACTIVITIES		**(645,650)**	(545,770)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES			
New bank borrowings raised		**250,788**	1,679,758
Proceeds from shares issued upon exercise of share options		**1,761**	11,092
Repayment of secured bank borrowings		**(169,704)**	(1,472,732)
Dividends paid		**(89,369)**	(87,595)
Payment for repurchase and cancellation of shares		**(49,674)**	(49,147)
Repayment of promissory note	42	**(45,311)**	–
Payment for purchase of treasury shares		**(39,324)**	–
Acquisitions of additional equity interests from non-controlling interests		**(2,015)**	(2,422)
Proceeds from issue of new shares		**–**	820,921
Contribution from non-controlling interests of subsidiaries		**–**	22,285
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(142,848)**	922,160
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(94,367)**	713,462
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,578,477**	876,532
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		**(758)**	(11,517)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		**1,483,352**	1,578,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL

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

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

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

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

New and Amendments to HKFRSs that are mandatory effective for the current year

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.1 HKFRS 15 Revenue from Contracts with Customers

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

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

The Group recognises revenue from the following major sources which arise from contracts with customers:

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

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

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

(iv) Revenue from the educational services.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 5 and 3 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Cont'd)

Summary of effects arising from initial application of HKFRS 15

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

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

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

Notes:

(i) In relation to the sales of pre-paid game cards for online and mobile games, receipt in advance of RMB13,622,000 from online and mobile games income included in trade and other payables and deferred income of RMB24,327,000 from unutilised game points on online and mobiles games were reclassified to contract liabilities upon the adoption of HKFRS 15.

(ii) In relation to the sales of education equipment and related goods, retention receivables of RMB4,486,000 included in other receivables, prepayments and deposits were reclassified to contract assets, receipt in advance of RMB59,371,000 for sales of goods included in trade and other payables were reclassified to contract liabilities and deferred income of RMB71,204,000 related to extended warranty were reclassified to contract liabilities upon the adoption of HKFRS 15.

(iii) In relation to contracts on provision of mobile solution, products and marketing services, amounts due from customers for contract work of RMB16,522,000 were reclassified to contract assets, and amounts due to customers for contract work of RMB1,691,000 were reclassified to contract liabilities upon the adoption of HKFRS 15.

(iv) In relation to educational services, receipt in advance of RMB13,452,000 of educational services included in trade and other payables were reclassified to contract liabilities upon the adoption of HKFRS 15.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and the consolidated statement of cash flows for the year ended 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Cont'd)

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

Impact on the consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Non-current assets			
Contract assets (Note ii)	2,389	(2,389)	—
Other receivables, prepayments and deposits (Note ii)	45,564	2,389	47,953
Current assets			
Contract assets (Notes ii and iii)	29,775	(29,775)	—
Other receivables, prepayments and deposits (Note ii)	320,360	8,587	328,947
Amounts due from customers for contract work (Note iii)	—	21,188	21,188
Current liabilities			
Contract liabilities (Notes i, ii, iii, iv and v)	412,462	(412,462)	—
Deferred income (Notes i and ii)	—	104,768	104,768
Amounts due to customers for contract work (Note iii)	—	386	386
Trade and other payables (Notes i, ii, iv and v)	783,040	307,308	1,090,348

Notes:

(i) In relation to the sales of pre-paid game cards for online and mobile games, receipt in advance of RMB10,045,000 from online and mobile games income and deferred income of RMB23,322,000 from unutilised game points on online and mobiles games included in contract liabilities were reclassified as trade and other payables and deferred income respectively without the adoption of HKFRS 15.

(ii) In relation to the sales of education equipment and related goods, retention receivables of RMB10,976,000 included in contract assets, receipt in advance of RMB94,385,000 for sales of goods included in contract liabilities and deferred income of RMB81,446,000 related to extended warranty included in contract liabilities were reclassified as other receivables, prepayments and deposits, trade and other payables and deferred income respectively without the adoption of HKFRS 15.

(iii) In relation to contracts on provision of mobile solution, products and marketing services, RMB21,188,000 included in contract assets and RMB386,000 included in contract liabilities were reclassified as amounts due from customers for contract work and amounts due to customers for contract work respectively without the adoption of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Cont'd)

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

Impact on the consolidated statement of financial position (Cont'd)

(iv) In relation to the educational services, receipt in advance of RMB14,267,000 of educational services included in contract liabilities was reclassified as trade and other payables without the adoption of HKFRS 15.

(v) In relation to sales of properties, advance payments of RMB188,611,000 from customers for sales of properties were reclassified as trade and other payables without the adoption of HKFRS 15.

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
OPERATING ACTIVITIES			
Increase in amounts due from customers for contract work	—	(4,666)	(4,666)
Increase in contract assets	(11,156)	11,156	—
Increase in other receivables, prepayments and deposits	(109,788)	(6,490)	(116,278)
Increase in trade and other payables	195,799	220,863	416,662
Increase in contract liabilities	228,720	(228,720)	—
Decrease in amounts due to customers for contract work	—	(1,305)	(1,305)
Increase in deferred income	—	9,162	9,162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.2 HKFRS 9 Financial Instruments

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

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2.2 HKFRS 9 Financial Instruments (Cont'd)

Summary of effects arising from initial application of HKFRS 9

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

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

Notes:

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

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

There was no impact on the classification of the remaining financial assets and liabilities from the application of HKFRS 9.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. Except for those which had been determined as credit-impaired under HKAS 39, the remaining balances are grouped based on internal credit rating. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

ECL for other financial assets at amortised cost, including restricted bank deposit, other receivables, amount due from a related company, amounts due from associates, amount due from a joint venture, restricted bank balances, pledged bank deposits, bank deposit over three months, bank balances and loan receivables, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

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

[2] Effective for annual periods beginning on or after a date to be determined.

[3] Effective for annual periods beginning on or after 1 January 2021.

[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

[5] Effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

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

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

New and amendments to HKFRSs in issue but not yet effective (Cont'd)

HKFRS 16 Leases (Cont'd)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon applications of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, and upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB142,231,000 as disclosed in Note 54. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

New and amendments to HKFRSs in issue but not yet effective (Cont'd)

HKFRS 16 Leases (Cont'd)

In addition, the Group currently considers refundable rental deposits paid of RMB23,114,000 and refundable rental deposits received of RMB2,952,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-In 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or OCI, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in OCI and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed of directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

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

Investments in associates and joint ventures

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and OCI of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and OCI are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates and joint ventures (Cont'd)

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in OCI in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in OCI by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

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

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

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

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

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

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

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Cont'd)

The Group recognises revenue from the following major sources:

(i) The Group's distribution and payment channels are through (i) direct sales (both online payment systems and other direct sales channels) and (ii) pre-sale game card sales through distributors. Revenue from online and mobile games is recognised at a point in time upon utilisation of game points.

The Group sells pre-paid game cards to online and mobile game players through distributors. The game players can also credit their online and mobile user accounts for game points directly through online payment systems and other direct sales channels. With the pre-paid game cards, online and mobile game players can credit their online and mobile game accounts with game points or for purchasing virtual products or premium features in online and mobile games of the Group which are free-to-play. The virtual products or premium features purchased by the customers are then used by them shortly after consumption by a specific game player action in the online and mobile games. Such amount received is deferred and recorded as contract liabilities and would be recognised as revenue (i.e. online or mobile game revenue) after the actual usage of the game points for purchasing virtual products or premium features. Revenue recognised in respect of operating the online and mobile games is net of any discounts given to certain distributors. In assessing the estimated amount of average sales value for the unutilised game points, management considers the discount rate applicable to each of the distributor and the income received via different distributors. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at the end of the reporting period. The estimated average sales value of each game point is then determined by factoring the average discount rate to the face value of the game point.

(ii) Revenue from the sales of education equipment and related goods is recognised at a point in time when the education equipment and related goods are delivered and titles have passed. The normal credit term is 30 to 90 days upon delivery.

(iii) Revenue from provision of mobile solution, products and marketing services, is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The contracts on provision of mobile solution, products and marketing services include payment schedules which require stage payments over the service period once certain specified milestones are reached.

(iv) Revenue from the educational services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group collects the educational service fee once a year before the commencement on providing the educational services.

(v) Revenue from sales of properties in the ordinary course of business is recognised at a point in time upon delivery of the properties to the buyers.

Deposits received from customers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities as contract liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Cont'd)

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

Output method

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

Input method

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

Variable consideration

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Cont'd)

Existence of significant financing component

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

Warranties

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

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

Revenue recognition (prior to 1 January 2018)

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

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

Online and mobile games revenue

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (prior to 1 January 2018) (Cont'd)

Education revenue

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

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

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

Maintenance contract sales

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

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

Others

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

Service income is recognised when services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Construction contracts

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

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

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as other payables in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

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

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Such properties are classified to properties under development when there is a change in use evidenced by the relevant approval obtained by the relevant government authorities with a view to the sale of the relevant properties upon completion of development.

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

Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

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

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

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

Leasehold land and building

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets

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

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

Research and development expenditure

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure (Cont'd)

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

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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

The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Properties under development

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

Property held for sale

Property held for sale which is classified as a non-current asset held for sale is measured at the lower of their carrying amount and fair value less costs to sell.

Leases

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

The Group as lessor

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

The Group as lessee

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transactions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transactions in Note 2) (Cont'd)

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

In addition, the Group may irrecoverably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the equity instruments at equity instrument at fair value through other comprehensive income reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity instruments, and will be transferred to retained profits.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application of HKFRS 9 with transactions in accordance with Note 2)

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

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

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

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

(i) Significant increase in credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application of HKFRS 9 with transactions in accordance with Note 2) (Cont'd)

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

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

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

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

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application of HKFRS 9 with transactions in accordance with Note 2) (Cont'd)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application of HKFRS 9 with transactions in accordance with Note 2) (Cont'd)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis, the financial instruments are grouped on the basis of (i) nature of financial instruments and (ii) past-due status. The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified into the following specified categories, including financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Cont'd)

(i) Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

(ii) Available-for-sale financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Cont'd)

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

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in OCI and accumulated under the heading of available-for-sale investment reserve.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the equity instruments at fair value through other comprehensive income reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss previously accumulated in the available-for-sale investment reserve is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of as acquirer in a business combination to which HKFRS 3 applies, (ii) held-for-trading or (iii) it is designated as at FVTPL.

Financial liabilities at FVTPL

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities at FVTPL (Cont'd)

Upon application of HKFRS 9, the financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible preferred shares, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in OCI. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Prior to application of HKFRS 9 on 1 January 2018, 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 includes any interest paid on the financial liability and is included in the "Net gain on convertible preferred shares" line item.

Financial liabilities at amortised cost

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

Convertible preferred shares

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

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payment transactions

Equity-settled share-based payment transactions

Share option scheme

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

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

Share award scheme

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Retirement benefit costs

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

Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions

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

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

Warranties

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

Restructurings

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

Onerous contracts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying the accounting policies

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

Accounting for companies governed under contractual arrangements as subsidiaries

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

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to RMB2,488,369,000 (2017: RMB1,841,412,000) for the year ended 31 December 2018. At 31 December 2018, total assets and total liabilities of these entities amounted to RMB1,163,036,000 (2017: RMB867,960,000) and RMB470,065,000 (2017: RMB358,884,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

Deferred taxation on investment properties

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

Key sources of estimation uncertainty

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

Online and mobile game revenue recognition

Online and mobile game revenue is recognised after the actual usage of the game points in the online and mobile games by the customers for purchasing virtual products or premium features. Advance received in respect of unutilised game points is recognised as contract liabilities.

The Group currently has different distribution and payment channels, including direct sales (by online payment systems and other direct sales channels) and pre-paid card sales through distributors. Online and mobile game income received is net of discounts given to certain distributors. As to the amount of contract liabilities in respect of unutilised game points, management's estimation is required in determining the estimated average sales value of these unutilised game points as discounts given are different for different distributors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Key sources of estimation uncertainty (Cont'd)

Online and mobile game revenue recognition (Cont'd)

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

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the CGUs to which goodwill and intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to identify CGUs, estimate growth rates in cash flow forecasts and suitable discount rate applied to these forecasts in order to calculate the present value. Where the actual future cash flow forecasts are less than expected, or change in facts and circumstances which results in downward revision of future cash flow, a material impairment loss or further impairment loss may arise. As at 31 December 2018, the carrying amounts of goodwill and intangible assets are RMB390,640,000 and RMB824,991,000 (2017: RMB388,675,000 and RMB715,578,000) respectively. Details of the recoverable amount calculation of goodwill and intangible assets with indefinite useful lives are disclosed in Note 24.

Allowances on/provision of ECL for trade receivables and contract assets

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and the allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at an effective interest rate computed at initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables is RMB383,984,000, net of allowance of credit losses of RMB6,483,000.

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

Key sources of estimation uncertainty (Cont'd)

Allowances on/provision of ECL for trade receivables and contract assets (Cont'd)

Upon application of HKFRS 9, the Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables which are credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in Note 49, Note 26 and Note 31 respectively. As at 1 January 2018 and 31 December 2018, the carrying amount of trade receivables is RMB383,984,000 and RMB450,435,000 respectively. Allowance of credit losses for trade receivables as at 1 January 2018 and 31 December 2018 is RMB6,483,000 and RMB18,436,000 respectively. The carrying amount of contract assets as at 1 January 2018 and 31 December 2018 is RMB21,008,000 and RMB32,164,000 respectively with no allowance of credit losses provided.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professional valuers to perform the valuation. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 16 and 49 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES

	2018 RMB'000	2017 RMB'000
Revenue		
Online and mobile games revenue	2,367,405	1,672,858
Education revenue (including sales of education equipment and related goods and educational services)	2,565,556	2,105,290
Mobile solution, products and marketing revenue	104,578	89,475
	5,037,539	3,867,623

(i) Disaggregation of revenue from contracts with customers

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

Types of goods and services

	For the year ended 31 December 2018			
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Total RMB'000
Revenue from sales of pre-paid game cards for online and mobile games	2,367,405	–	–	2,367,405
Sales of education equipment and related goods	–	2,470,477	–	2,470,477
Revenue from provision of mobile solution, products and marketing services	–	–	104,578	104,578
Revenue from educational services	–	95,079	–	95,079
	2,367,405	2,565,556	104,578	5,037,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

(i) Disaggregation of revenue from contracts with customers (Cont'd)

Timing of revenue recognition

	For the year ended 31 December 2018			
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Total RMB'000
A point in time	2,367,405	2,470,477	–	4,837,882
Over time	–	95,079	104,578	199,657
	2,367,405	2,565,556	104,578	5,037,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

(i) Disaggregation of revenue from contracts with customers (Cont'd)

Geographical information

	For the year ended 31 December 2018			
	Online and mobile games revenue RMB'000	Education revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Total RMB'000
PRC	2,214,560	306,552	–	2,521,112
United States of America ("USA")	122,842	1,056,983	–	1,179,825
Russia	–	431,932	–	431,932
United Kingdom ("UK")	–	184,953	–	184,953
Germany	–	123,406	–	123,406
Hong Kong	–	1,021	98,746	99,767
France	–	68,615	–	68,615
Egypt	–	52,073	–	52,073
Australia	–	40,596	–	40,596
Netherlands	–	37,909	–	37,909
Vietnam	–	33,949	–	33,949
Spain	–	27,802	–	27,802
Italy	–	22,788	–	22,788
Ireland	–	17,468	–	17,468
India	–	15,184	–	15,184
Others	30,003	144,325	5,832	180,160
	2,367,405	2,565,556	104,578	5,037,539

5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

(ii) Performance obligation for contracts with customers

The Group's distribution and payment channels are through (i) direct sales (both online payment systems and other direct sales channels) and (ii) pre-sale game card sales through distributors. The performance obligation in relation to revenue for online and mobile games is satisfied at a point of time upon the utilisation of game points for purchasing virtual products or premium features. The Group sells pre-paid game cards to online and mobile game players through distributors. The game players can also credit their online and mobile user accounts for game points directly through online payment systems and other direct sales channels. The normal credit terms to its distribution and payment channels is 30 to 90 days upon the receipt of the money on game points collected from customers.

For revenue from sales of education equipment and related goods, the performance obligation is satisfied at a point of time when the education equipment and related goods are delivered and titles have passed. The normal credit term is 30 to 90 days upon delivery.

Revenue from the provision of mobile solution, products and marketing services, is recognised over time using output method, i.e. to recognise revenue on the basis of direct measurement of the value of goods or services promised under the contract that best depict the Group's performance in transferring control of goods or services. The contracts on provision of mobile solution, products and marketing services include payment schedules which require stage payments over the service period once certain specified milestones are reached and customers are offered 30 to 45 days credit terms after the billing is issued.

Revenue from the educational services which mainly represents the tuition fee are recognised over time using input method, i.e. based on the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation contract that best depict the Group's performance in transferring control of goods or services. The Group collects the educational service fee once a year before the commencement on providing the educational services.

Revenue from sales of properties is recognised at a point of time upon delivery of the properties to the buyers. Pre-sale deposits and advance payment received from customers for sales of properties are included in contract liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially satisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Online and mobile games revenue RMB'000 (Note)	Sales of education equipment and related goods revenue RMB'000	Educational service revenue RMB'000	Mobile solution, products and marketing revenue RMB'000	Sales of properties RMB'000
Within one year	**33,367**	**391,662**	**100,430**	**9,195**	**350,868**
More than one year but not more than two years	**–**	**–**	**–**	**3,106**	**–**
More than two years	**–**	**–**	**–**	**3,267**	**–**
	33,367	**391,662**	**100,430**	**15,568**	**350,868**

Note: The unused game points in online and mobile games revenue have no expiration period and can be used at anytime at customers' discretion. The amounts disclosed above represent the Group's expectation on the timing of utilisation made by customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. REVENUE, OTHER INCOME AND GAINS, OTHER EXPENSES AND LOSSES (Cont'd)

	2018 RMB'000	2017 RMB'000
Other income and gains		
Gain on fair value change of investment properties	**9,310**	10,726
Government grants (Note)	**51,913**	61,591
Interest income	**13,328**	7,066
Donation	**–**	540
Net foreign exchange gain	**24,348**	–
Game implementation income	**1,851**	5,413
Rental income, net of negligible outgoing expenses	**14,334**	6,803
Server rental income	**47**	290
Others	**3,058**	2,964
	118,189	95,393

Note:

Government grants were received from the government of the PRC mainly for subsidising (i) the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to compensation for expenses or losses already incurred and (ii) the purchase of property, plant and equipment. Included in the government grants, there was a release of RMB6,161,000 (2017: RMB1,811,000) for the year ended 31 December 2018 recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure.

	2018 RMB'000	2017 RMB'000
Other expenses and losses		
Impairment of goodwill	**68,372**	–
Other tax and charges	**25,204**	15,354
Redundancy payment	**22,157**	10,485
Donation	**17,576**	2,497
Write-off of intangible assets	**7,788**	–
Impairment of inventories	**1,670**	13,306
Net loss on disposal of property, plant and equipment	**832**	1,867
Loss on deregistration of a subsidiary	**112**	–
Impairment of property held for sale	**–**	1,625
Net foreign exchange loss	**–**	24,992
Release of reserve upon impairment of an available-for-sale investment	**–**	28,687
Others	**6,597**	1,321
	150,308	100,134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on secured bank borrowings	**10,756**	5,918
Interest on promissory note	**1,165**	1,068
Other interest expense	**494**	3,423
	12,415	10,409

7. IMPAIRMENT LOSS, NET OF REVERSAL

	2018 RMB'000	2017 RMB'000
Impairment losses recognised (reversed) on:		
– Impairment of trade receivables	**11,717**	847
– Reversal of allowance for credit losses	**–**	(572)
	11,717	275

8. SEGMENT INFORMATION

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

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

2018

	Online and mobile games RMB'000	Education RMB'000	Mobile solution, products and marketing RMB'000	Total RMB'000
Segment revenue	**2,367,405**	**2,565,556**	**104,578**	**5,037,539**
Segment profit (loss)	**1,401,655**	**(495,138)**	**(16,508)**	**890,009**
Unallocated other income and gains				**48,925**
Unallocated expenses and losses				**(370,781)**
Profit before taxation				**568,153**

8. SEGMENT INFORMATION (Cont'd)

2017

	Online and mobile games RMB'000	Education RMB'000	Mobile solution, products and marketing RMB'000	Total RMB'000
Segment revenue	1,672,858	2,105,290	89,475	3,867,623
Segment profit (loss)	807,912	(491,711)	(2,406)	313,795
Unallocated other income and gains				19,399
Unallocated expenses and losses				(364,980)
Net fair value gain on held-for-trading investment				58
Loss before taxation				(31,728)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by or loss incurred from each segment without allocation of net fair value gain on held-for-trading investment, and unallocated income, gains, expenses and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	2018 RMB'000	2017 RMB'000
Online and mobile games	**2,988,020**	2,377,169
Education	**2,835,697**	2,257,793
Mobile solution, products and marketing	**179,559**	200,240
Total segment assets	**6,003,276**	4,835,202
Unallocated	**742,666**	1,000,455
	6,745,942	5,835,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. SEGMENT INFORMATION (Cont'd)

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

Geographical information

The Group's operations are mainly located in the PRC, the USA and the UK.

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

	2018	2017
	RMB'000	RMB'000
PRC	**2,521,112**	1,890,481
USA	**1,179,825**	1,032,998
Russia	**431,932**	236,880
UK	**184,953**	153,290
Germany	**123,406**	68,542
Hong Kong	**99,767**	86,881
France	**68,615**	49,143
Egypt	**52,073**	2,458
Australia	**40,596**	50,810
Netherlands	**37,909**	18,164
Vietnam	**33,949**	20,561
Spain	**27,802**	21,612
Italy	**22,788**	25,827
Ireland	**17,468**	23,896
India	**15,184**	12,437
Others	**180,160**	173,643
	5,037,539	3,867,623

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. SEGMENT INFORMATION (Cont'd)

Geographical information (Cont'd)

The Group's non-current assets, excluding equity instruments at FVTOCI/available-for-sale investments, trade receivables, restricted bank deposit, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

	2018	2017
	RMB'000	RMB'000
PRC	**2,076,515**	1,939,035
UK	**739,784**	773,642
Hong Kong	**233,070**	309,040
USA	**287,949**	74,668
France	**43**	135
Germany	**182**	265
Thailand	**972**	1,160
	3,338,515	3,097,945

Information about major customers

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

9. TAXATION

	2018	2017
	RMB'000	RMB'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	**6,138**	6,209
– (Over) under provision in prior years	**(1,746)**	230
	4,392	6,439
PRC Enterprise Income Tax ("EIT")		
– Current year	**122,485**	55,450
– Withholding tax	**4,216**	6,419
– (Over) under provision in prior years	**(2,499)**	60
	124,202	61,929
Taxation in other jurisdictions		
– Current year	**4,060**	1,441
– Under (over) provision in prior years	**338**	(2,788)
	4,398	(1,347)
Deferred taxation (Note 25)		
– Current year	**(41,643)**	(9,812)
	91,349	57,209

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong dollar ("HKD") 2 million of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HKD2 million will be taxed at 16.5%. The assessable profits of the remaining group entities not qualifying for two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

9. TAXATION (Cont'd)

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

Fujian TQ Digital Inc. ("TQ Digital"), a wholly foreign owned enterprise, had been declared and approved as a key software enterprise on 31 May 2016 by the State Administration of Taxation (國家稅務局) which will be subject to enterprise income tax at the reduced rate of 10% and the qualification of key software enterprise is subject to review every year. TQ Digital was entitled to a preferential EIT rate of 10% for the years ended 31 December 2018 and 2017.

On 1 December 2016, Fujian TQ Online Interactive Inc. ("TQ Online") was approved to be a hi-tech enterprise and is entitled to a reduced tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every three years. Therefore, the tax rate of TQ Online for the years ended 31 December 2018 and 2017 is 15%.

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

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

For the year ended 31 December 2018, the USA income tax rates applicable to subsidiaries incorporated in the USA is 21% (2017: 39%) for federal tax and 8.84% (2017: 8.84%) for state income tax.

The United Kingdom Corporation Tax Rate applicable to subsidiaries is 19% for the year ended 31 December 2018 (2017: 20% from 1 January 2017 to 31 March 2017, and 19% effective from 1 April 2017 to 31 December 2017).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

9. TAXATION (Cont'd)

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

	2018	2017
	RMB'000	RMB'000
Profit (loss) before taxation	**568,153**	(31,728)
Tax at the applicable tax rate of 25% (2017: 25%) (Note a)	**142,038**	(7,932)
Tax effect of share of losses of associates	**343**	206
Tax effect of share of loss of a joint venture	**429**	142
Tax effect of income not taxable for tax purpose	**(43,932)**	(24,639)
Tax effect of expenses not deductible for tax purpose	**63,103**	55,155
Tax effect of deductible temporary difference not recognised	**(5,036)**	(1,992)
Utilisation of tax losses previously not recognised	**(39,865)**	(1,160)
Tax effect of tax losses not recognised	**162,813**	101,431
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(4,606)**	(2,946)
Effect of previous deductible temporary difference now recognised as deferred tax assets (Note b)	**(24,736)**	–
Additional tax benefit on development expenses (Note c)	**(7,259)**	(3,516)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	**(153,069)**	(61,497)
Over provision in prior years	**(3,907)**	(2,498)
Withholding tax at 10% distributable profit and interest income	**4,216**	6,419
Others	**817**	36
Tax charge for the year	**91,349**	57,209

Notes:

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2018 and 2017.

b. The amount mainly represented the recognition of deferred tax asset in respect of certain tax losses of a subsidiary of the Group and temporary difference arising from deferred income not being recognised as there were no probable taxable profits in the prior years. During the year ended 31 December 2018, the realisation of the related tax benefit through the future taxable profit becomes probable and therefore a deferred tax asset was recognised.

c. Pursuant to the relevant tax rules and regulations, the Group can obtain additional tax benefit, which is equivalent to 75% (2017: 50%) of the staff costs and depreciation under development costs incurred for the development of new games and advanced technology development.

Details of deferred taxation are set out in Note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROFIT (LOSS) FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**23,390**	13,416
Other staff costs		
Salaries and other benefits	**1,497,869**	1,329,023
Contributions to retirement benefits schemes	**143,700**	131,368
Share-based payments expense	**10,728**	1,409
	1,675,687	1,475,216
Auditor's remuneration		
– audit services	**6,497**	5,317
– non-audit services	**626**	745
	7,123	6,062
Amortisation of intangible assets	**87,976**	83,728
Amortisation of prepaid lease payments (included in administrative expenses)	**6,589**	13,211
Depreciation of property, plant and equipment	**157,347**	159,498
Total depreciation and amortisation	**251,912**	256,437
Cost of goods sold for education equipment and related goods	**1,669,671**	1,434,543
Advertising and promotion expenses (included in selling and marketing expenses)	**219,828**	186,061
Impairment of goodwill	**68,372**	–
Impairment of inventories	**1,670**	13,306
Impairment of property held for sale	**–**	1,625
Release of reserve upon impairment of an available-for-sale investment	**–**	28,687
Write-back of deposit paid for acquisition of property, plant and equipment	**–**	(1,162)
Write-off of intangible assets	**7,788**	–
Operating lease rentals in respect of		
– rented premises	**80,176**	66,855
– servers	**52,549**	55,484

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROFIT (LOSS) FOR THE YEAR (Cont'd)

	2018 RMB'000	2017 RMB'000
Gross rental income from investment properties with negligible outgoing expenses	(1,858)	(1,711)
Net loss on disposal of property, plant and equipment	832	1,867
Loss on deregistration of a subsidiary	112	–
Total net foreign exchange (gain) loss	(14,318)	21,742

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

Directors' and the chief executive's emoluments

The emoluments paid or payable to each of the nine (2017: nine) directors of the Company were as follows:

	2018				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	–	803	–	–	803
Mr. Liu Luyuan (Note i)	–	780	30	–	810
Mr. Zheng Hui	–	464	38	–	502
Mr. Chen Hongzhan	–	705	24	–	729
Dr. Leung Lim Kin, Simon (Note ii)	–	7,862	15	9,657	17,534
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Chao Guowei, Charles	580	–	–	424	1,004
Mr. Lee Kwan Hung	580	–	–	424	1,004
Mr. Liu Sai Keung, Thomas	580	–	–	424	1,004
	1,740	10,614	107	10,929	23,390

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

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

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

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

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

Notes:

(i) Mr. Liu Luyuan is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

(ii) Included in the salaries and other benefits paid to Dr. Leung Lim Kin, Simon is an amount of RMB3,143,000 (2017: RMB1,439,000) performance related bonus during the year ended 31 December 2018 which are determined based on the Group's performance for the year.

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

Five highest paid employees

Of the five highest emoluments in the Group, during both reporting periods, one (2017: one) was executive director of the Company, whose emoluments are set out above. The emoluments of the remaining four individuals (2017: four) who are neither a director nor chief executive of the Company were as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	**21,181**	16,621
Contribution to retirement benefits schemes	**131**	337
Share-based payments expense	**2,056**	–
	23,368	16,958

Their emoluments were within the following bands:

	2018 Number of employees	2017 Number of employees
In HKD		
HKD3,500,001 to HKD4,000,000	**–**	1
HKD4,000,001 to HKD4,500,000	**–**	2
HKD5,000,001 to HKD5,500,000	**1**	–
HKD5,500,001 to HKD6,000,000	**1**	–
HKD6,500,001 to HKD7,000,000	**1**	–
HKD7,000,001 to HKD7,500,000	**–**	1
HKD9,500,001 to HKD10,000,000	**1**	–
	4	4

During the year ended 31 December 2018, no emoluments have been paid by the Group to any of the directors or the chief executive of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or the chief executive of the Company waived any remuneration during the years ended 31 December 2018 and 2017.

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12. DIVIDENDS

	2018	2017
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2018 Interim - HKD0.10 (2017: 2017 Interim dividend of HKD0.10) per share	**44,780**	43,137
2017 Final - HKD0.10 (2017: 2016 Final dividend of HKD0.10) per share	**44,589**	44,458
	89,369	87,595

The final dividend of HKD0.15 (2017: HKD0.10) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB69,809,000 (2017: RMB44,661,000).

13. EARNINGS (LOSS) PER SHARE

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

	2018	2017
	RMB'000	RMB'000
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share:		
– Profit (loss) for the year attributable to the owners of the Company	**545,573**	(20,843)

	Number of shares	
	2018	2017
	'000	'000
Weighted average number of shares in issue during the year for the purpose of basic earnings (loss) per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**532,665**	506,081
Effect of dilutive potential shares from the Company's share option scheme (Note)	**805**	–
Number of shares for the purpose of calculating diluted earnings (loss) per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**533,470**	506,081

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2017	536,046	391,673	584,287	49,119	349,398	1,910,523
Exchange adjustments	464	(1,220)	202	(16)	106	(464)
Additions	–	36,095	80,335	8,409	231,646	356,485
Acquired on acquisition of subsidiaries (Note 46)	–	–	97	–	–	97
Reclassification	–	20,739	3,333	–	(24,072)	–
Disposals	(4,370)	(33)	(68,474)	(6,191)	–	(79,068)
Transfer to properties under development	–	–	–	–	(104,712)	(104,712)
At 31 December 2017	**532,140**	**447,254**	**599,780**	**51,321**	**452,366**	**2,082,861**
Exchange adjustments	**(131)**	**1,047**	**1,606**	**1**	**(6)**	**2,517**
Additions	**–**	**12,478**	**79,756**	**3,841**	**345,230**	**441,305**
Acquired on acquisition of a subsidiary (Note 46)	**–**	**1,529**	**850**	**–**	**–**	**2,379**
Reclassification	**10,258**	**18,756**	**2,937**	**–**	**(31,951)**	**–**
Disposals	**–**	**(561)**	**(16,158)**	**(5,858)**	**–**	**(22,577)**
At 31 December 2018	**542,267**	**480,503**	**668,771**	**49,305**	**765,639**	**2,506,485**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
DEPRECIATION						
At 1 January 2017	61,327	127,727	408,972	28,003	–	626,029
Exchange adjustments	446	(977)	300	(11)	–	(242)
Provided for the year	25,473	35,241	89,214	9,570	–	159,498
Eliminated on disposals	(4,370)	(33)	(65,571)	(5,476)	–	(75,450)
At 31 December 2017	**82,876**	**161,958**	**432,915**	**32,086**	**–**	**709,835**
Exchange adjustments	**(131)**	**897**	**1,127**	**486**	**–**	**2,379**
Provided for the year	**25,287**	**33,489**	**90,999**	**7,572**	**–**	**157,347**
Eliminated on disposals	**–**	**(561)**	**(14,766)**	**(5,166)**	**–**	**(20,493)**
At 31 December 2018	**108,032**	**195,783**	**510,275**	**34,978**	**–**	**849,068**
CARRYING VALUES						
At 31 December 2018	**434,235**	**284,720**	**158,496**	**14,327**	**765,639**	**1,657,417**
At 31 December 2017	449,264	285,296	166,865	19,235	452,366	1,373,026

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

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

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

	2018 RMB'000	2017 RMB'000
In the PRC other than in Hong Kong	**434,235**	449,264

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15. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
Current assets	**6,636**	9,866
Non-current assets	**293,228**	515,299
	299,864	525,165

The Group's prepaid lease payments are located in the PRC. In 2017, inclusion in the prepaid lease payments are land use rights with carrying amount of RMB63,378,000 which the Group was in the process of obtaining the land use right certificates.

16. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2017	57,964
Exchange adjustments	(4,158)
Increase in fair value recognised in profit or loss	10,726
At 31 December 2017	**64,532**
Exchange adjustments	**3,439**
Increase in fair value recognised in profit or loss	**9,310**
At 31 December 2018	**77,281**

The fair values of the Group's investment properties, including both land and building elements, as at 31 December 2018 and 31 December 2017 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. The fair values of the investment properties are determined based on the market approach which uses the prices and other relevant information generated by market transactions involving comparable properties. One of the key inputs used in valuing the investment properties is the sales prices of properties nearby the Group's investment properties which ranged from HKD26,435 (equivalent to RMB23,200) per sq.ft to HKD32,800 (equivalent to RMB28,700) per sq.ft (2017: ranged from HKD25,170 (equivalent to RMB21,000) per sq.ft to HKD32,348 (equivalent to RMB27,000) per sq.ft), where sq.ft is a common unit of area used in Hong Kong. An increase in the sales prices would result in an increase in fair value measurement of the investment properties, and vice versa. There has been no change in the valuation technique used from the prior year.

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

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17. INTANGIBLE ASSETS

	Trademarks	Licence	Non-competition agreement	Customers relationship	Patent and technology	Development costs	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)		(Note b)	(Note b)	(Note c)	(Note d)		
COST								
At 1 January 2017	246,577	29,940	61,031	145,508	315,698	122,565	30,691	952,010
Exchange adjustments	6,807	–	–	2,245	6,537	3,840	518	19,947
Additions	–	701	–	–	–	36,851	–	37,552
Acquired on acquisition of subsidiaries (Note 46)	24,674	–	–	–	–	–	–	24,674
At 31 December 2017	**278,058**	**30,641**	**61,031**	**147,753**	**322,235**	**163,256**	**31,209**	**1,034,183**
Exchange adjustments	**8,037**	**25**	**–**	**(857)**	**(2,125)**	**(1,582)**	**(197)**	**3,301**
Additions	**–**	**19,575**	**–**	**–**	**–**	**51,943**	**–**	**71,518**
Acquired on acquisition of a subsidiary (Note 46)	**127,096**	**–**	**–**	**–**	**–**	**–**	**–**	**127,096**
Write off for the year	**–**	**–**	**–**	**–**	**–**	**(10,475)**	**(6,700)**	**(17,175)**
At 31 December 2018	**413,191**	**50,241**	**61,031**	**146,896**	**320,110**	**203,142**	**24,312**	**1,218,923**

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17. INTANGIBLE ASSETS (Cont'd)

	Trademarks	Licence	Non-competition agreement	Customers relationship	Patent and technology	Development costs	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)		(Note b)	(Note b)	(Note c)	(Note d)		
AMORTISATION								
At 1 January 2017	1,033	14,585	16,615	32,071	36,711	104,062	24,435	229,512
Exchange adjustments	–	–	–	472	842	3,534	517	5,365
Provided for the year	449	6,502	6,783	19,610	32,210	17,346	828	83,728
At 31 December 2017	**1,482**	**21,087**	**23,398**	**52,153**	**69,763**	**124,942**	**25,780**	**318,605**
Exchange adjustments	**–**	**–**	**–**	**(504)**	**(847)**	**(1,714)**	**(197)**	**(3,262)**
Provided for the year	**449**	**6,428**	**6,783**	**19,697**	**32,352**	**21,439**	**828**	**87,976**
Write off for the year	**–**	**–**	**–**	**–**	**–**	**(2,687)**	**(6,700)**	**(9,387)**
At 31 December 2018	**1,931**	**27,515**	**30,181**	**71,346**	**101,268**	**141,980**	**19,711**	**393,932**
CARRYING VALUES								
At 31 December 2018	**411,260**	**22,726**	**30,850**	**75,550**	**218,842**	**61,162**	**4,601**	**824,991**
At 31 December 2017	276,576	9,554	37,633	95,600	252,472	38,314	5,429	715,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

17. INTANGIBLE ASSETS (Cont'd)

Notes:

a. Included in the trademarks of approximately RMB247,049,000 (2017: RMB249,981,000) as at 31 December 2018 are those acquired on acquisition of Promethean World Limited and its subsidiaries (collectively referred to as "Promethean Group") having legal lives of 2 to 20 years and are renewable every 2 to 20 years at minimal cost. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends and brand extension opportunities have been performed by management of the Group, which supports that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group. As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

   During the year ended 31 December 2017, trademark with indefinite useful life of RMB24,674,000 was acquired on acquisition of Jumpstart Games, Inc. and its subsidiaries (collectively referred to as "Jumpstart Group").

   During the year ended 31 December 2018, trademark with indefinite useful life of RMB127,096,000 was acquired on acquisition of Edmodo, Inc. ("Edmodo"). The trademark is considered as having an indefinite useful life.

   Particulars of the impairment testing are disclosed in Note 24.

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

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

d. Development costs represent (i) the software for a cloud-based teaching and learning platform which connects students' tablets and laptops to interactive displays (Interactive Whiteboard and Interactive Flat Panel) and such development costs were acquired from acquisition of the Promethean Group and (ii) the technological know-how internally generated for personalised location services, marketing and e-commerce, location intelligence and data analysis.

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

Trademarks	10% - 57.14%
Licence	5% - 50%
Non-competition agreement	11.11%
Customers relationship	10% - 16.67%
Patent and technology	10%
Development costs	33.33%
Others	10% - 50%

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18. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Unlisted investments:		
Cost of investments	**37,992**	28,992
Share of post-acquisition losses	**(14,401)**	(13,031)
Group's share of net assets of associates	**23,591**	15,961

As at 31 December 2018 and 2017, the Group had interests in the following associates:

Name of entities	Proportion of ownership interest and voting rights held by the Group 2018	2017	Country of establishment/ operation	Registered capital	Principal activities
101 Education Technology Co. Ltd. ("101 Cayman") (Note a)	**49.0%**	49.0%	Cayman Islands	US dollar ("USD") 8,000,000	Investment holding
101 Education Technology Co. Ltd. ("101 BVI") (Note a)	**49.0%**	49.0%	British Virgin Islands ("BVI")	USD8,000,000	Investment holding
101 Education Technology (Hong Kong) Co. Ltd. ("101 HK") (Note a)	**49.0%**	49.0%	Hong Kong	USD8,000,000	Provision of online education and related application business
福建創思教育科技有限公司 ("福建創思教育") (Note a)	**49.0%**	49.0%	PRC	USD8,000,000	Provision of online education and related application business
福建一零一教育科技有限公司 ("福建一零一教育") (Note a)	**49.0%**	49.0%	PRC	RMB10,000,000	Provision of online education and related application business
安徽學雲教育科技有限公司 ("安徽學雲教育") (Note b)	**15.0%**	–	PRC	RMB9,411,800	Provision of online education and related application business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. INTERESTS IN ASSOCIATES (Cont'd)

Notes:

a. The Group holds 49% of the issued share capital of 101 Cayman, 101 BVI, 101 HK, 福建創思教育 (collectively referred to as "101 Education Group") and 福建一零一教育 , and has the power to appoint three directors out of seven directors in their board. Therefore, 101 Education Group and 福建一零一教育 are classified as associates of the Group as at 31 December 2018 and 2017.

b. The Group holds 15% of the registered capital of 安徽學雲教育, and has the power to appoint one director out of three directors in the board. Therefore, 安徽學雲教育 is classified as an associate of the Group as at 31 December 2018.

Summarised financial information of material associates

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

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

101 Education Group

	2018 RMB'000	2017 RMB'000
Current assets	**31,907**	33,249
Non-current assets	**73**	245
Current liabilities	**(1,738)**	(1,599)
Revenue	**1,926**	6,383
Loss for the year	**(1,653)**	(949)

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

	2018 RMB'000	2017 RMB'000
Net assets of 101 Education Group	**30,242**	31,895
Proportion of the Group's ownership interest in the 101 Education Group	**49.0%**	49.0%
Carrying amount of the Group's interest in the 101 Education Group	**14,819**	15,629

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

18. INTERESTS IN ASSOCIATES (Cont'd)

福建一零一教育

	2018 RMB'000	2017 RMB'000
Current assets	**2,816**	6,322
Non-current assets	**191**	391
Current liabilities	**(2,749)**	(6,035)
Revenue	**5**	2,972
Loss for the year	**(420)**	(728)

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

	2018 RMB'000	2017 RMB'000
Net assets of 福建一零一教育	**258**	678
Proportion of the Group's ownership interest in 福建一零一教育	**49.0%**	49.0%
Carrying amount of the Group's interest in 福建一零一教育	**126**	332

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

18. INTERESTS IN ASSOCIATES (Cont'd)

安徽學雲教育

	2018 RMB'000	2017 RMB'000
Current assets	3,709	N/A
Non-current assets	3,150	N/A
Current liabilities	(222)	N/A
Revenue	6	N/A
Loss for the year	(2,363)	N/A

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

	2018 RMB'000	2017 RMB'000
Net assets of 安徽學雲教育	6,637	N/A
Proportion of the Group's ownership interest in 安徽學雲教育	15.0%	N/A
The Group's share of net assets of 安徽學雲教育	996	N/A
Goodwill	7,650	N/A
Carrying amount of the Group's interest in 安徽學雲教育	8,646	–

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FOR THE YEAR ENDED 31 DECEMBER 2018

19. INTEREST IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Unlisted investment:		
Cost of investment	**18,000**	18,000
Share of post-acquisition loss	**(2,284)**	(567)
Group's share of net assets of a joint venture	**15,716**	17,433

Name of entity	Proportion of ownership interest and voting rights held by the Group		Country of establishment/ operation	Registered capital	Principal activities
	2018	2017			
福建省國騰信息科技有限公司 ("國騰") (Note)	**60.0%**	60.0%	PRC	RMB1,000,000,000	Application of information technologies, virtual reality and augmented reality technology

Note: 國騰 is a joint venture company of the Group although the Group has 60% ownership interest and voting rights in 國騰. The directors of the Company assessed whether or not the Group has joint control over 國騰 based on whether decisions about the relevant activities of the arrangement can be made without the consent of the Group. Pursuant to an agreement signed between the three joint venturers, the other two joint venturers act in concert and own 40% of shareholdings in 國騰 in aggregate, and that at least two-thirds of the voting rights are required to make decisions about the relevant activities of the arrangement. After assessment, the directors of the Company concluded that decisions about the relevant activities of the arrangement cannot be made without the consent of the Group and therefore the Group has joint control over 國騰.

19. INTEREST IN A JOINT VENTURE (Cont'd)

Summarised financial information of a joint venture

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

The joint venture is accounted for using the equity method in these consolidated financial statements.

國騰

	2018 **RMB'000**	2017 RMB'000
Current assets	**27,416**	29,614
Non-current asset	**268**	15
Current liabilities	**(1,491)**	(574)
Revenue	**145**	–
Loss for the year	**(2,862)**	(945)

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

	2018 **RMB'000**	2017 RMB'000
Net assets of 國騰	**26,193**	29,055
Proportion of the Group's ownership interest in 國騰	**60.0%**	60.0%
Carrying amount of the Group's interest in 國騰	**15,716**	17,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017
	RMB'000
Unlisted equity securities in the PRC	
– 福建楊振華 851 生物科技股份有限公司	
(Fujian Yangzhenhua 851 Bio-Engineering Inc.) (Note a)	4,000
– 青島信通物聯網絡有限公司 (Note b)	1,000
	5,000
Equity securities listed in Canada	
– ARHT Media Inc. (Note c)	5,859
	10,859

Notes:

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

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

c. The entity is a listed entity and its shares are listed in Toronto Stock Exchange. In 2016, the Group acquired 19.99% equity interest in this entity.

The unlisted equity securities in the PRC are stated at cost less impairment at the end of the reporting period because the directors of the Company are of the opinion that its fair value cannot be measured reliably. The fair value of the listed equity securities is based on their current bid prices in active markets.

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FOR THE YEAR ENDED 31 DECEMBER 2018

21. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018
	RMB'000
Unlisted equity securities in the PRC (Note a)	
– 福建楊振華 851 生物科技股份有限公司 (Fujian Yangzhenhua 851 Bio-Engineering Inc.)	**–**
Equity securities listed in Canada (Note b)	
– ARHT Media Inc.	**1,493**
	1,493

Notes:

a. The above unlisted equity investment represents the Group's equity interests in private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that the investment is not held for trading and not expected to be sold in the foreseeable future. As at 1 January 2018, RMB4,000,000 was reclassified from available-for-sale investments to equity instruments at FVTOCI. It has a fair value loss of RMB4,000,000 during the year ended 31 December 2018.

b. The above listed equity investment represent ordinary shares of an entity listed in Toronto Stock Exchange. The investment is not held for trading, instead, it is held for long-term strategic purpose. The directors of the Company have elected to designate this investment in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

As at 1 January 2018, RMB1,000,000 of investment in 青島信通物聯網絡有限公司 was reclassified from available-for-sale investments to equity instruments at FVTOCI. In the current year, 青島信通物聯網絡有限公司 was deregistered. A fair value loss of RMB1,000,000 has been recognised in equity instruments at fair value through other comprehensive income reserve and transferred to retained profits upon its deregistration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. LOAN RECEIVABLES

	2018 RMB'000	2017 RMB'000
Fixed-rate loan receivables	11,248	14,195
Variable-rate loan receivables	17,680	8,877
	28,928	23,072
Analysed as:		
Current	16,078	4,662
Non-current	12,850	18,410
	28,928	23,072

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

	2018	2017
Effective interest rates:		
Fixed-rate loan receivables (per annum)	3.33% - 4.9%	3.33% - 4.9%
Variable-rate loan receivables (per annum)	2.15%-5.125%	2.15% - 5%

Included in loan receivables, RMB18,065,000 (2017: RMB17,462,000) represents loans to certain key management and staff. Loan receivables are not past due or impaired at the end of the reporting period. The loans are either repayable by instalments until 2019, 2020, 2021, 2022, 2023 or 2035 (2017: 2018, 2019, 2020, 2022 or 2035) or repayable in whole in 2019 and 2022 (2017: 2019 and 2022). An amount of RMB3,432,000 (2017: RMB3,267,000) is secured by shares of a subsidiary and the remaining amounts are unsecured.

Details of impairment assessment are set out in Note 49.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

23. GOODWILL

	2018 RMB'000	2017 RMB'000
COST		
At 1 January	**388,675**	338,237
Arising on acquisition of subsidiaries (Note 46)	**64,444**	46,939
Exchange adjustments	**5,893**	3,499
At 31 December	**459,012**	388,675
IMPAIRMENT		
At 1 January	**–**	–
Impairment loss recognised for the year	**68,372**	–
At 31 December	**68,372**	–
CARRYING VALUES		
At 31 Decmeber	**390,640**	388,675

Particulars regarding impairment assessment of goodwill for the year ended 31 December 2018 and 2017 are disclosed in Note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

For the purpose of impairment testing, goodwill and trademarks with indefinite useful lives set out in Notes 23 and 17 have been allocated to ten individual or groups of CGUs, comprising three subsidiaries in the online and mobile games segment, five subsidiaries in the education segment and two subsidiaries in the mobile solution, products and marketing segment. The carrying amounts of goodwill and trademarks as at 31 December 2018 and 31 December 2017 allocated to these units are as follows:

	Goodwill		Trademarks	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Online and mobile games:				
CGU-1	**–**	6,104	**–**	–
CGU-2	**8**	8	**–**	–
CGU-3	**–**	15,247	**–**	–
	8	21,359	**–**	–
Education:				
CGU-4	**12,534**	12,534	**–**	–
CGU-5	**–**	31,097	**–**	–
CGU-6	**233,687**	236,461	**247,049**	249,981
CGU-7	**47,533**	45,255	**24,998**	23,800
CGU-8	**69,399**	–	**136,867**	–
	363,153	325,347	**408,914**	273,781
Mobile solution, products and marketing:				
CGU-9	**27,479**	27,479	**–**	–
CGU-10	**–**	14,490	**–**	–
	27,479	41,969	**–**	–
At 31 December	**390,640**	388,675	**408,914**	273,781

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

The recoverable amounts of the CGUs arising from online and mobile games, education and mobile solution, products and marketing business were determined individually based on value in use calculations. Those value in use calculations use cash flow projections based on future cash flow forecasts approved by management covering a five-year period and discount rates of 15.15% (2017: 13.44%), 15.15% (2017: 13.44%), 26.91% (2017: 27.30%), 15.15% (2017: 13.44%), 24.84% (2017: 24.10%), 22.97% (2017: 23.84%), 15.71% (2017: 15.20%), 19.33% (2017: N/A), 20.37% (2017: 20.65%) and 21.16% (2017: 21.44%) for CGU-1 to CGU-10 respectively. Cash flows beyond five-year period is extrapolated using a steady growth rate ranging from 1.9% to 3.0% (2017: 2.1% to 3.0%). Cash flow projections during the forecast period for the CGUs are based on the estimated growth rates during the forecast period. Estimated growth rates were determined based on past performance and the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs (except CGU-1, CGU-3, CGU-5 and CGU-10) to exceed the recoverable amounts of respective CGUs.

During the year ended 31 December 2018, the CGU-1, CGU-3, CGU-5 and CGU-10 incurred loss in the current year and its recoverable amount was assessed to be less than the carrying amount. The directors have consequently determined impairment of goodwill directly related to the CGU-1, CGU-3, CGU-5 and CGU-10 amounting to RMB6,104,000, RMB15,982,000, RMB31,097,000 and RMB15,189,000 respectively. No other write-down of the assets of the CGU-1, CGU-3, CGU-5 and CGU-10 unit is considered necessary. Management of the Group determines that there is no impairment of the remaining CGUs containing goodwill or trademarks with indefinite useful lives.

25. DEFERRED TAXATION

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

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets	**38,169**	4,160
Deferred tax liabilities	**(163,843)**	(130,466)
	(125,674)	(126,306)

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25. DEFERRED TAXATION (Cont'd)

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

	Deferred revenue	Accelerated tax depreciation	Property, plant and equipment	Intangible assets	Inventories	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	–	(150)	811	(123,068)	60	2,064	510	(119,773)
(Charged) credited to profit or loss	–	(44)	(803)	9,287	1,398	479	(505)	9,812
Arising on acquisition of a subsidiary (Note 46)	–	–	–	(10,571)	–	–	(3,020)	(13,591)
Exchange adjustments	–	11	(8)	(3,018)	14	145	102	(2,754)
At 31 December 2017	–	(183)	–	(127,370)	1,472	2,688	(2,913)	(126,306)
Credited to profit or loss	6,280	–	–	7,169	879	19,085	8,230	41,643
Arising on acquisition of a subsidiary (Note 46)	–	–	–	(37,925)	–	–	–	(37,925)
Exchange adjustments	(90)	(9)	–	(2,465)	(16)	(243)	(263)	(3,086)
At 31 December 2018	6,190	(192)	–	(160,591)	2,335	21,530	5,054	(125,674)

At the end of the reporting period, the Group has taxable temporary differences associated with undistributed earnings of PRC subsidiaries of RMB3,006,719,000 (2017: RMB2,089,619,000). No deferred tax liability has been recognised for the undistributed earnings of RMB3,006,719,000 (2017: RMB2,089,619,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

A deferred tax asset has been recognised in respect of approximately RMB83,188,000 (2017: RMB8,112,000) of the unused tax losses of the Group during the year ended 31 December 2018. The Group has not recognised deferred tax assets arising from tax losses amounting to RMB1,619,736,000 (2017: RMB1,278,660,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. Included in unrecognised tax losses are losses of RMB1,619,736,000 (2017: RMB1,278,660,000) that can be carried forward up to year 2023 (2017: up to year 2022), five years from year in which the loss was originated, to offset against future taxable profits. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of RMB94,883,000 (2017: RMB10,482,000). A deferred tax asset has been recognised in respect of approximately RMB57,893,000 (2017: Nil) of such differences of the Group during the year ended 31 December 2018. No deferred tax asset has been recognised in respect of the remaining differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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FOR THE YEAR ENDED 31 DECEMBER 2018

26. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**468,871**	390,467
Less: Allowance of credit losses	**(18,436)**	(6,483)
	450,435	383,984

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB450,435,000 and RMB383,984,000, respectively.

The Group generally allows a credit period ranging from 30 days to 90 days to its distribution and payment channels/trade customers.

For customers in education business, the Group has previously accepted settlement of trade receivables by four years in accordance with the agreements in prior years and therefore trade receivables of RMB3,912,000 was classified as non-current assets as at 31 December 2017. Such extended credit terms arrangement is ceased afterwards.

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

	2018 RMB'000	2017 RMB'000
Trade debtors		
0 - 30 days	**233,932**	227,847
31 - 60 days	**107,939**	81,630
61 - 90 days	**45,849**	29,269
Over 90 days	**54,563**	29,509
Receivables aged over 90 days with extended credit terms		
Due within one year	**8,152**	11,817
Due after one year	**–**	3,912
	450,435	383,984

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB132,176,000 which are past due as at the reporting date. Out of the past due balances, RMB48,112,000 has been past due 90 days or more and is not considered as in default for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

As at 31 December 2017, 79.45% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB78,909,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Before accepting any new distributor/customer, the Group uses an internal credit assessment policy to assess the potential distributor/customer's credit quality and define credit limits by distributor/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

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FOR THE YEAR ENDED 31 DECEMBER 2018

26. TRADE RECEIVABLES (Cont'd)

Ageing of trade receivables which are past due but not impaired

	2017
	RMB'000
31 - 60 days	34,026
61 - 90 days	15,977
Over 90 days	28,906
Total	78,909

Movement in the allowance for doubtful debts

	2017
	RMB'000
At beginning of year	13,630
Allowances recognised on trade receivables	847
Allowances reversed during the year	(572)
Allowances written off	(7,054)
Exchange adjustments	(368)
At end of year	6,483

As at 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB6,483,000 of which the debtors have been in dispute with the Group.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in Note 49.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. PROPERTIES UNDER DEVELOPMENT

The Group's properties under development are situated in the PRC. All of the properties under development are stated at the lower of cost and net realisable value. As at 31 December 2018, the properties under development are expected to be realised within twelve months from the end of the reporting period. During the year ended 31 December 2018, an amount of RMB220,613,000 (2017: Nil) were transferred from prepaid lease payments to properties under development.

28. INVENTORIES

	2018	2017
	RMB'000	RMB'000
Raw materials	**8,107**	8,268
Work in progress	**155**	134
Finished goods	**259,158**	98,028
	267,420	106,430

29. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017
	RMB'000
Contracts in progress at the end of the reporting period	
Contract costs incurred plus recognised profits less recognised losses	29,442
Less: Progress billings	(14,611)
	14,831
Analysed for reporting process as:	
Amounts due from contract customers	16,522
Amounts due to contract customers	(1,691)
	14,831

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30. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2018	2017
	RMB'000	RMB'000
Prepayments to suppliers	**108,573**	72,420
Prepayments for rented premises, utilities and server	**103,912**	68,532
Refundable rental and guarantee deposits	**61,744**	37,449
Other receivables from agent for repurchasing the shares of the Company	**8,760**	15,150
Interest receivables	**3,387**	2,558
Other tax recoverables	**59,466**	28,524
Others	**20,082**	31,315
	365,924	255,948
Analysed for financial reporting purpose:		
Non-current	**45,564**	–
Current	**320,360**	255,948
	365,924	255,948

Included in prepayments for rented premises, utilities and server and refundable rental and guarantee deposits, there are balances of:

(i) RMB34,455,000 (2017: Nil) which represents prepayment and deposit for lease contracts paid to a related company 福州楊振華 851 生物工程技術研究開發有限公司 Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851").

(ii) RMB25,000,000 (2017: Nil) which represents deposit for technical support service paid to a related company 福州天亮網絡技術有限公司 Fuzhou Tianliang Network Technology Co., Limited ("Fuzhou Tianliang") as at 31 December 2018.

Details of impairment assessment of other receivables for the year ended 31 December 2018 are set out in Note 49.

31. CONTRACT ASSETS

	31 December 2018 RMB'000	1 January 2018* RMB'000
Mobile solution, products and marketing services	**21,188**	16,522
Education equipment and related goods	**10,976**	4,486
	32,164	21,008
Analysed for financial reporting purpose:		
Current	**29,775**	21,008
Non-current	**2,389**	—
	32,164	21,008

* The amounts in this column are after the adjustments from the application of HKFRS 15.

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

Details of the impairment assessment of contract assets for the year ended 31 December 2018 are set out in Note 49.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

32. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company disclosed pursuant to section 383 of the Hong Kong Companies Ordinance are as follows:

Name of related company	Terms	Balance at 31 December 2018 RMB'000	Balance at 1 January 2017 and 31 December 2017 RMB'000	Maximum amount outstanding during the year 2018 RMB'000	Maximum amount outstanding during the year 2017 RMB'000
Fuzhou 851 (Note a)	Unsecured, non-interest bearing and repayable on demand	–	1,704	1,704	1,704
Fuzhou Tianliang (Note b)	Unsecured, non-interest bearing and repayable on demand	140	–	290	83
		140	1,704		

Notes:

a. Fuzhou 851 is an entity which is owned by DJM, the immediate holding company of the Company, and Mr. Liu Dejian, executive director and one of the Ultimate Controlling Shareholders of the Company, together in aggregate own 100% equity interest in this entity as of 31 December 2018 and 2017. The amount was not trade in nature.

b. Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, which acts under the instruction of the Ultimate Controlling Shareholders. The amount is not trade in nature.

Details of the impairment assessment of amount due from a related company for the year ended 31 December 2018 are set out in Note 49.

33. AMOUNT(S) DUE FROM ASSOCIATES/A JOINT VENTURE

As at 31 December 2017, the amounts due from associates were trade in nature and aged within 90 days. As at 31 December 2018, the amounts due from associates are not trade in nature, unsecured, non-interest bearing and repayable on demand.

As at 31 December 2017 and 2018, the amount due from a joint venture is not trade in nature, unsecured, non-interest bearing and repayable on demand.

Details of the impairment assessment of amounts due from associates and amount due from a joint venture for the year ended 31 December 2018 are set out in Note 49.

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FOR THE YEAR ENDED 31 DECEMBER 2018

34. RESTRICTED BANK DEPOSIT/RESTRICTED BANK BALANCES/PLEDGED BANK DEPOSITS/BANK DEPOSIT OVER THREE MONTHS/BANK BALANCES AND CASH

Restricted bank deposit, restricted bank balances, pledged bank deposits, bank deposit over three months and bank balances carry interest at prevailing banking deposit rates which ranges from 0.001% to 3.500% (2017: 0.001% to 2.750%) per annum.

Restricted bank balances represent bank balances for guarantee completion of constructions and pledged bank deposits represent bank deposit to secure a bank borrowing granted to the Group and to obtain credit card facility. In 2017, restricted bank deposit represented deposit for litigation guarantee.

Included in restricted bank deposit, restricted bank balances, pledged bank deposits, bank deposit over three months, bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective group entities to which they relate:

	2018 RMB'000	2017 RMB'000
RMB	54,666	400
HKD	18,672	383,791
USD	602,223	565,998
European dollar ("EURO")	34,053	32,354
Australian dollar ("AUD")	1,458	806
Great Britain Pound ("GBP")	151	151

Details of the impairment assessment of restricted bank balances, pledged bank deposits, bank deposit over three months, bank balances for the year ended 31 December 2018 are set out in Note 49.

35. PROPERTY HELD FOR SALE

	2018 RMB'000	2017 RMB'000
Freehold land and building held for sale	–	9,213

During the year ended 31 December 2018, a property located in the United States with a carrying amount of RMB8,925,000 that was classified as property held for sale was disposed of at a consideration of RMB8,857,000. Net loss on disposal of RMB68,000 (2017: Nil) was recognised during the year ended 31 December 2018. An impairment loss of RMB1,625,000 was recognised during the year ended 31 December 2017.

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36. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**281,236**	242,169
Accrued staff costs	**224,604**	183,284
Government grants (Note a)	**12,974**	13,495
Receipt in advance (Note b)	**385**	86,511
Other tax payables	**38,633**	26,476
Advertising payable	**33,862**	16,951
Payables for purchase of property, plant and equipment	**13,120**	8,968
Consultancy fee payable	**25,000**	7,883
Refundable rental deposits	**2,952**	2,301
Consideration payable	**8,800**	7,078
Payable for purchases of intangible assets	**6,631**	7,602
Accrued expenses	**35,535**	25,782
Others (Note c)	**99,308**	52,236
	783,040	680,736

Notes:

(a) The amount represents the current portion of government grants which are mainly assets related and amortised over the life of related assets or costs related and recognised as income when the relevant expenses are incurred for which the Group is entitled to be compensated.

(b) As at 1 January 2018, RMB86,445,000 included in receipt in advance was reclassified to contract liabilities upon the application of HKFRS 15.

(c) Others mainly represent office and server rental payable and other miscellaneous items for operating activities.

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

	2018 RMB'000	2017 RMB'000
0 - 90 days	**252,832**	230,001
91 - 180 days	**21,552**	7,931
181 - 365 days	**698**	2,288
Over 365 days	**6,154**	1,949
	281,236	242,169

37. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018* RMB'000
Online and mobile games (Note i)	**33,367**	37,949
Education equipment and related goods (Note i)	**175,831**	130,575
Mobile solution, products and marketing services (Note i)	**386**	1,691
Educational services (Note i)	**14,267**	13,452
Sales of properties (Note ii)	**188,611**	–
	412,462	183,667

* The amounts in this column are after the adjustments from the application of HKFRS 15.

Notes:

(i) The contract liabilities include unutilised game points on online and mobile games, advance payments from customers contracted education equipment and related goods and advance payments from customers for mobile solution, products and marketing services and advance payments from customers for education services. The contract liabilities are transferred to revenue when customers control and receive the goods, services and benefits.

(ii) The amount represents the pre-sale deposits and advance payment received from customers for sales of properties prior to the respective properties have been completed and delivered to the customers which is a point in time when customers have the ability to direct the use of the properties and obtain substantially all the remaining benefits of the properties. The Group receives a fixed amount of RMB50,000 as deposits from customers when they sign the sale and purchase agreement. The deposits and advance payment schemes result in contract liabilities being recognised throughout the property construction period until the customer obtains control of the completed property. The significant increase in contract liabilities from the sales of properties in the current year was due to the commencement of pre-sale of properties by the Group in 2018.

Revenue amounting to RMB181,651,000 recognised during the year ended 31 December 2018 was included in contract liabilities balance at the beginning of the reporting period. There was no revenue recognised during the year that related to performance obligations that were satisfied in prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. PROVISIONS

	Warranty	Restructuring	Onerous lease	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)	(Note b)	(Note c)		
At 1 January 2017	30,577	5,481	1,813	9,707	47,578
Additional provision	26,428	–	–	1,392	27,820
Release of provision	–	–	(1,865)	–	(1,865)
Utilisation of provision	(18,149)	(5,638)	–	(9,986)	(33,773)
Exchange adjustments	994	157	52	283	1,486
At 31 December 2017	**39,850**	**–**	**–**	**1,396**	**41,246**
Additional provision	**29,390**	**–**	**–**	**399**	**29,789**
Utilisation of provision	**(8,903)**	**–**	**–**	**(1,402)**	**(10,305)**
Exchange adjustments	**(793)**	**–**	**–**	**(1)**	**(794)**
At 31 December 2018	**59,544**	**–**	**–**	**392**	**59,936**

Notes:

a. The warranty provision is calculated by estimating the possible failure rates of the Promethean Group's hardware, with the exception of projectors which are covered by a third party warranty. The length of warranty period ranges from one to five years and varies depending on both the product and the country the product is sold to.

The timing and frequency of product failures are inherently uncertain and for this reason the warranty provision has been disclosed as current.

b. Restructuring represents the reorganisation costs to restructure the business of Promethean Group, indirect non-wholly owned subsidiaries, to significantly reduce their operating cost base.

c. The onerous lease provision created in prior year arises from the exit of certain of the Promethean Group's premises in the UK and the USA due to the reorganisation of the Promethean Group to reduce its operating cost base in line with current market demand.

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

The amounts are trade in nature, aged within 90 days, unsecured, non-interest bearing and repayable on demand.

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40. CONVERTIBLE PREFERRED SHARES

On 13 February 2015, Best Assistant Education Online Limited ("Best Assistant"), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 12.7% of the issued share capital of the Company, "IDG Investors"), Vertex Asia Fund Pte. Ltd. ("Vertex"), Alpha Animation and Culture (Hong Kong) Company Limited ("Alpha"), Catchy Holdings Limited, DJM (in which Mr. Liu Dejian and Mr. Zheng Hui, executive directors and beneficial owners of the Company together have 100% equity interest), Creative Sky International Limited and NetDragon Websoft Inc. ("NetDragon BVI"), a direct wholly owned subsidiary of the Company. The Series A convertible preferred shares are denominated in USD.

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

Conversion

The Series A and Series B convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to certain adjustments (such as proportional adjustment and anti-dilution adjustment).

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

Dividends

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

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40. CONVERTIBLE PREFERRED SHARES (Cont'd)

Liquidation

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

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

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

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

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

	2018 **RMB'000**	2017 RMB'000
At 1 January	**95,249**	104,101
Issue of Series B convertible preferred shares (Note 46)	**64,556**	–
Fair value change	**(60,659)**	(2,809)
Exchange adjustments	**9,758**	(6,043)
At 31 December	**108,904**	95,249

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41. SECURED BANK BORROWINGS

The carrying amounts of the secured bank borrowings are repayable*:

	2018 RMB'000	2017 RMB'000
Within one year	**138,509**	131,930
Within a period of more than one year but not exceeding two years	**81,599**	1,246
Within a period of more than two years but within five years	**88,005**	85,336
	308,113	218,512
The carrying amounts of secured bank borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable:		
Within one year	**16,648**	14,202
Less: Amounts due within one year shown under current liabilities	**(155,157)**	(146,132)
Amounts shown under non-current liabilities	**169,604**	86,582

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The exposure of the Group's borrowings is as follows:

	2018 RMB'000	2017 RMB'000
Variable-rate borrowings	**324,761**	232,714

The Group's variable-rate borrowings for the year ended 31 December 2018 carry interest at (i) one-month Hong Kong Inter-Bank Offer Rate ("HIBOR") plus 2.20% or 2.90% per annum, (ii) higher of twelve-month London Inter-Bank Offer Rate ("LIBOR") plus 0.50% or 3.25% per annum, (iii) benchmark interest rate of three-year borrowings of the People's Bank of China plus 2.11% to 7.37% per annum or (iv) benchmark interest rate of five-year borrowings of the People's Bank of China plus 6.12% per annum.

The Group's variable-rate borrowings for the year ended 31 December 2017 carry interest at (i) one-month HIBOR plus 1.5% or 2.20% per annum, (ii) higher of twelve-month LIBOR plus 0.50% or 3.25% per annum, (iii) benchmark interest rate of three-year borrowings of the People's Bank of China plus 2.11% to 4.21% per annum or (iv) benchmark interest rate of five-year borrowings of the People's Bank of China plus 6.12% per annum.

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41. SECURED BANK BORROWINGS (Cont'd)

The range of effective interest rates on the Group's bank borrowings are as follows:

	2018	2017
Variable-rate borrowings	**3.06% to 5.20%**	1.87% to 5.20%

The borrowings were secured by pledged bank deposits as mentioned in Note 34, a pledge of property of a subsidiary, prepaid lease payments, corporate guarantee provided by the Company and corporate guarantee provided by its subsidiaries.

42. PROMISSORY NOTE

On 1 July 2017, Digital Train Limited ("Digital Train"), an indirect non-wholly owned subsidiary of the Company has issued a promissory note with a total principal amount of USD7,075,000 (equivalent to approximately RMB47,946,000) to third parties, which carried interest at twelve-month LIBOR plus 2.5% per annum and had maturity in July 2018.

	2018 RMB'000	2017 RMB'000
At 1 January	**46,226**	–
Issue of promissory note (Note 46)	**–**	47,946
Repayment	**(45,311)**	–
Exchange adjustments	**(915)**	(1,720)
At 31 December	**–**	46,226

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43. OTHER PAYABLES

	2018	2017
	RMB'000	RMB'000
Payables for purchase of intangible assets (Note a)	**15,330**	–
Government grants (Note b)	**6,889**	–
Consideration payable (Note c)	**–**	2,693
At 31 December	**22,219**	2,693

Notes:

(a) Amount represents the non-current portion of consideration payable for purchase of intangible assets .

(b) Amount represents non-current portion of government grants which are assets related. The following table discloses the movement of government grants:

	2018	2017
	RMB'000	RMB'000
At 1 January	**13,495**	–
Addition	**58,281**	75,086
Release to profit or loss during the year	**(51,913)**	(61,591)
At 31 December	**19,863**	13,495
Analysed for financial reporting purpose:		
Current	**12,974**	13,495
Non-current	**6,889**	–
	19,863	13,495

(c) As at 31 December 2017, other payables mainly represented the remaining consideration for the acquisition of 蘇州馳聲信息科技有限公司 in 2015.

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44. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2017, 31 December 2017 and 31 December 2018	**1,000,000,000**	**10,000,000**	**75,771**
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2017	496,069,778	4,960,698	36,571
Shares issued upon exercise of share options (Note i)	2,453,513	24,535	169
Repurchase and cancellation of shares (Note ii)	(2,737,500)	(27,375)	(201)
Issue of new shares (Note iii)	38,500,000	385,000	2,555
At 31 December 2017	**534,285,791**	**5,342,858**	**39,094**
Shares issued upon exercise of share options (Note i)	**125,925**	**1,259**	**8**
Repurchase and cancellation of shares (Note ii)	**(3,265,500)**	**(32,655)**	**(239)**
At 31 December 2018	**531,146,216**	**5,311,462**	**38,863**

Notes:

(i) During the year ended 31 December 2018, 125,925 (2017: 2,453,513) share options were exercised and as a result of 125,925 (2017: 2,453,513) ordinary shares were issued. Approximately RMB8,000 (2017: RMB169,000) and RMB2,615,000 (2017: RMB15,906,000) were recorded as share capital and share premium, respectively.

(ii) During the year ended 31 December 2018, the Company repurchased 3,265,500 (2017: 2,737,500) of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was approximately RMB49,674,000 (2017: RMB49,147,000).

(iii) During the year ended 31 December 2017, 38,500,000 ordinary shares were issued to one of ultimate controlling shareholders, Mr. Liu Dejian. Approximately RMB2,555,000 and RMB818,366,000 were recorded as share capital and share premium, respectively.

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45. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company's share option scheme (the "Old Scheme") was adopted pursuant to a resolution passed on 12 June 2008. The Old Scheme has expired on 12 June 2018 and a new share option scheme (the "New Scheme") was approved and adopted by the shareholders at the annual general meeting of the Company held on 24 May 2018. Subject to early termination, the Old Scheme and the New Scheme shall be valid and effective for a period of 10 years from 12 June 2008 and 24 May 2018, respectively. The purpose of the Old Scheme and the New Scheme is to provide the eligible participant ("Eligible Participant") as defined in the Old Scheme and the New Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Eligible Participants of the Old Scheme and the New Scheme include employees, executives and officers of the members of the Group (including executive and non-executive directors of the members of the Group) and business consultants, agents and legal and financial advisers to the members of the Group whom the board of directors considers, in its sole discretion, will contribute or have contributed to the members of the Group.

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 2,689,684 (31 December 2017: 2,817,109), representing 0.51% (31 December 2017: 0.53%) of the shares of the Company in issue at that date. As at the date of this report, the number of securities of the Company available for issue under the New Scheme was 53,341,969, representing approximately 10.04% of the issued share capital of the Company as at the date of this report. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue as at the date of grant. Where any further grant of options to an Eligible Participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

Options granted must be taken up within 28 days from the date of the offer, upon payment of a nominal consideration of HKD1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. There is no general requirement that an option must be held for any minimum period before it can be exercised but the board of directors of the Company is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

Details of specific categories of options are as follows:

Batch 1:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2018
28 April 2011	28 April 2011 - 27 April 2012	28 April 2012 - 27 April 2021	1,440
28 April 2011	28 April 2011 - 27 April 2013	28 April 2013 - 27 April 2021	8,552
28 April 2011	28 April 2011 - 27 April 2014	28 April 2014 - 27 April 2021	29,225
28 April 2011	28 April 2011 - 27 April 2015	28 April 2015 - 27 April 2021	26,375
28 April 2011	28 April 2011 - 27 April 2016	28 April 2016 - 27 April 2021	277,900
			343,492

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

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

Batch 2:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2018
22 July 2011	22 July 2011 - 21 July 2013	22 July 2013 - 21 July 2021	101
22 July 2011	22 July 2011 - 21 July 2014	22 July 2014 - 21 July 2021	5,500
22 July 2011	22 July 2011 - 21 July 2015	22 July 2015 - 21 July 2021	2,399
			8,000

Batch 3:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2018
23 April 2012	23 April 2012 - 22 April 2013	23 April 2013 - 22 April 2022	5,417
23 April 2012	23 April 2012 - 22 April 2014	23 April 2014 - 22 April 2022	111,925
23 April 2012	23 April 2012 - 22 April 2015	23 April 2015 - 22 April 2022	218,300
23 April 2012	23 April 2012 - 22 April 2016	23 April 2016 - 22 April 2022	48,625
23 April 2012	23 April 2012 - 22 April 2017	23 April 2017 - 22 April 2022	65,850
			450,117

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

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

Batch 4:

Date of grant	**Vesting period**	**Exercisable period**	**Outstanding at 31 December 2018**
12 September 2012	12 September 2012 - 11 September 2013	12 September 2013 - 11 September 2022	4,200
12 September 2012	12 September 2012 - 11 September 2014	12 September 2014 - 11 September 2022	6,300
12 September 2012	12 September 2012 - 11 September 2015	12 September 2015 - 11 September 2022	8,400
12 September 2012	12 September 2012 - 11 September 2016	12 September 2016 - 11 September 2022	14,250
12 September 2012	12 September 2012 - 11 September 2017	12 September 2017 - 11 September 2022	17,100
			50,250

Batch 5:

Date of grant	**Vesting period**	**Exercisable period**	**Outstanding at 31 December 2018**
16 January 2013	16 January 2013 - 15 January 2014	16 January 2014 - 15 January 2023	6,350
16 January 2013	16 January 2013 - 15 January 2015	16 January 2015 - 15 January 2023	10,175
16 January 2013	16 January 2013 - 15 January 2016	16 January 2016 - 15 January 2023	44,100
16 January 2013	16 January 2013 - 15 January 2017	16 January 2017 - 15 January 2023	68,000
16 January 2013	16 January 2013 - 15 January 2018	16 January 2018 - 15 January 2023	122,700
			251,325

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

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

Batch 6:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2018
4 December 2013	4 December 2013 - 3 December 2014	4 December 2014 - 3 December 2023	159,000
4 December 2013	4 December 2013 - 3 December 2015	4 December 2015 - 3 December 2023	238,500
4 December 2013	4 December 2013 - 3 December 2016	4 December 2016 - 3 December 2023	477,000
			874,500

Batch 7:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2018
25 April 2014	25 April 2014 - 31 December 2016	1 January 2017 - 24 April 2024	139,000
25 April 2014	25 April 2014 - 31 December 2017	1 January 2018 - 24 April 2024	139,000
			278,000

Batch 8:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2018
11 May 2015	11 May 2015 - 6 October 2017	7 October 2017 - 10 May 2025	16,300
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
			134,000

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

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

Batch 9:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2018
31 March 2017	31 March 2017 - 30 March 2018	31 March 2018 - 30 March 2027	75,000
31 March 2017	31 March 2017 - 30 March 2019	31 March 2019 - 30 March 2027	75,000
31 March 2017	31 March 2017 - 30 March 2020	31 March 2020 - 30 March 2027	150,000
			300,000

The following table discloses the movement of the share options during the year ended 31 December 2018:

Option batch	Exercise price HKD	Outstanding at 1 January 2018	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31 December 2018
Batch 1	4.80	359,367	–	(14,375)	(1,500)	343,492
Batch 2	4.60	8,000	–	–	–	8,000
Batch 3	5.74	475,717	–	(25,600)	–	450,117
Batch 4	7.20	50,250	–	–	–	50,250
Batch 5	11.16	277,275	–	(25,950)	–	251,325
Batch 6	15.72	874,500	–	–	–	874,500
Batch 7	14.66	278,000	–	–	–	278,000
Batch 8	27.75	194,000	–	(60,000)	–	134,000
Batch 9	23.65	300,000	–	–	–	300,000
		2,817,109	–	(125,925)	(1,500)	2,689,684
Exercisable at the end of the year 2018						2,400,484
Weighted average exercise price		HKD13.58				HKD13.41

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FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

The following table discloses the movement of the share options during the year ended 31 December 2017:

Option batch	Exercise price HKD	Outstanding at 1 January 2017	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31 December 2017
Batch 1	4.33	1,400,000	–	(1,400,000)	–	–
Batch 2	4.80	497,452	–	(138,085)	–	359,367
Batch 3	4.60	342,950	–	(334,950)	–	8,000
Batch 4	5.74	774,294	–	(298,577)	–	475,717
Batch 5	6.53	246,326	–	(182,126)	(64,200)	–
Batch 6	7.20	50,250	–	–	–	50,250
Batch 7	11.16	370,250	–	(79,775)	(13,200)	277,275
Batch 8	15.72	874,500	–	–	–	874,500
Batch 9	14.66	278,000	–	–	–	278,000
Batch 10	27.75	214,000	–	(20,000)	–	194,000
Batch 11	23.65	–	300,000	–	–	300,000
		5,048,022	300,000	(2,453,513)	(77,400)	2,817,109
Exercisable at the end of the year 2017						2,111,759
Weighted average exercise price		HKD8.78				HKD13.58

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FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

The fair value of the options granted on 31 March 2017 was approximately RMB3,603,000. The fair value was calculated using the Binomial option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD23.65
Exercise price	HKD23.65
Expected life	10 years
Risk-free interest rate	1.587%
Expected volatility	56.734%
Expected dividend yield	0.846%

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

The Group recognised the total expense of RMB1,584,000 for the year ended 31 December 2018 (2017: RMB2,209,000) in relation to share options granted by the Company.

Upon the disposal of 91 Wireless Websoft Limited and its subsidiaries ("91 Group"), few participants of 91 Group under the Scheme are no longer the staff of the Group. The share options of these participants shall not lapse on the date of the disposal and shall continue to have effect under the Old Scheme. The Group recognised the total expense of RMB1,000 for the year ended 31 December 2018 (2017: RMB29,000) in relation to these share options granted.

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

(ii) Share award scheme by the Company

Pursuant to a circular to shareholders of the Company dated 3 September 2008, the Company introduced a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The rationale of the Share Award Scheme is to recognise the contributions by certain employees and to provide incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The selected employee are not required to pay for the grant of the Award or for the shares allotted or allocated pursuant to the Award.

The aggregate number of the Award is not permitted to exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The eligibility of employees to participate in the Share Award Scheme and number of shares which are the subject of each Award at each date of grant to a selected employee in accordance with the Share Award Scheme shall be determined at the absolute discretion of the committee, which comprised the directors of the Company duly appointed by the board of directors to administer the Share Award Scheme (the "Committee"), which shall take into consideration various factors including the general financial condition of the Group, the rank and performance of the relevant employee and such other general criteria as the Committee may consider appropriate as well as other limitations set forth under the Listing Rules and those rules of the Share Award Scheme.

In determining the number of shares to be awarded each year, the Committee shall have reference to the financial performance of the Group as reflected in the profit before taxation of the financial year.

The grant of the Award to the selected employee shall be accepted by the selected employee within 28 days from the date of offer. The selected employee may accept or refuse the whole but not part of a grant of the Award. If the grant of the Award is not accepted by the selected employee within 28 days from the date of offer, the offer shall upon the expiry of the 28 days period automatically lapse and shall be null and void.

Performance conditions (the "Performance Conditions") refers to the condition or conditions imposed by the Company on the selected employee's employment with the Company which must be fulfilled or satisfied by the selected employee prior to his eligibility for the Award. Performance period refers to the period of a participant employment with the Group which is used to assess the selected employee's work performance for the purpose of determining the grant of the selected employee's award.

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

(ii) Share award scheme by the Company (Cont'd)

The current Performance Conditions proposed by the Committee is that shares will only be vested to the employees after rendering services for certain period. Each employee needs to render the agreed period of service in order to be entitled to the shares granted.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB19,946,000 for the year ended 31 December 2018 (2017: approximately RMB2,776,000) in relation to share awards.

Movements in the share awards granted during the year ended 31 December 2018 and 2017 are as follows:

Year ended 31 December 2018

Name of category of participant	Date of grant	Outstanding at 1 January 2018	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2018
Other employees	21 January 2016	69,950	–	(68,630)	(1,320)	–
Other employees	19 April 2018	–	1,333,460	(226,580)	–	1,106,880
Director	19 April 2018	–	1,163,530	(290,890)	–	872,640
		69,950	2,496,990	(586,100)	(1,320)	1,979,520

Year ended 31 December 2017

Name of category of participant	Date of grant	Outstanding at 1 January 2017	Granted during year	Awards vested during year	Forfeited during year	Outstanding at 31 December 2017
Directors	31 December 2012	118,212	–	(118,212)	–	–
Other employees	21 January 2016	109,586	–	(38,334)	(1,302)	69,950
Director	31 March 2017	–	100,000	(100,000)	–	–
		227,798	100,000	(256,546)	(1,302)	69,950

Among the Award granted on 31 December 2012, no share awards were vested and released for the year ended 31 December 2018 (2017: 118,212 share awards).

Among the Award granted on 21 January 2016, 38,334, 630 and 68,000 share awards were vested on 9 September 2017, 20 January 2018 and 1 September 2018, respectively, 1,320 (2017: 1,302) share awards were forfeited during the year ended 31 December 2018.

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

(ii) Share award scheme by the Company (Cont'd)

Among the Award granted on 31 March 2017, 100,000 share awards were granted and vested during the year ended 31 December 2017.

Among the Award granted on 19 April 2018, 2,496,990 share awards were granted and 517,470 share awards were vested during the year ended 31 December 2018. 494,880, 494,880, 494,880 and 494,880 share awards will be vested on 30 April 2019, 30 April 2020, 30 April 2021 and 30 April 2022, respectively.

(iii) Share awarded by a subsidiary of the Company

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Best Assistant has granted 80,000 share awards to a selected participant and 16,000 share awards were vested and released for the year ended 31 December 2017. The number of share awards outstanding at 31 December 2017 was 64,000. Among the share awards granted by Best Assistant on 1 July 2017, 16,000 and 24,000 share awards were vested on 1 July 2017 and 1 July 2018 respectively. 40,000 share awards will be vested on 1 July 2019.

Among the share awards granted by Best Assistant on 1 July 2018, 600,000 share awards were granted and 120,000 share awards were vested on 1 July 2018. 120,000, 120,000, 120,000 and 120,000 share awards will be vested on 1 July 2019, 1 July 2020, 1 July 2021 and 1 July 2022.

Fair value of the share award at the grant date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the grant date. The Group recognised the total expenses of approximately RMB127,000 for the year ended 31 December 2018 (2017: RMB21,000) in relation to the share awards.

46. ACQUISITION OF SUBSIDIARIES

Acquisition of Edmodo

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

Consideration transferred

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

Acquisition-related costs amounting to RMB6,135,000 have been excluded from the cost of acquisition and are recognised directly as expenses when they are incurred.

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FOR THE YEAR ENDED 31 DECEMBER 2018

46. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Edmodo (Cont'd)

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

	RMB'000
Non-current assets	
Property, plant and equipment	2,379
Pledged bank deposit	8,241
Intangible assets	127,096
Current assets	
Trade receivables	1,623
Other receivables, prepayments and deposits	1,510
Pledged bank deposits	1,990
Bank balances and cash	3,177
Current liabilities	
Trade and other payables	(12,302)
Contract liabilities	(75)
Non-current liability	
Deferred tax liabilities	(37,925)
Net assets acquired	95,714

The fair values of the above intangible assets acquired are based on estimation used by the management of the Group with reference to valuation carried out by an independent professional valuer. Key assumptions and estimation used by the management included terminal value, discount rates and growth rates in the preparation of the discounted cash flows.

The fair values of trade receivables and other receivables are RMB1,623,000 and RMB21,000 respectively, which are also the gross contractual amounts of these receivables acquired. The best estimate at acquisition date of the contractual cash flows expected to be collected are the then entire outstanding amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

46. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Edmodo (Cont'd)

Goodwill arising on acquisition of Edmodo

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

Goodwill arose on the acquisition of Edmodo because the acquisition included the assembled workforce of Edmodo and some potential contracts which are still under negotiation with prospective new customers as at the date of acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

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

Net cash outflow on acquisition of Edmodo

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

46. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Edmodo (Cont'd)

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2018 was the loss of RMB80,068,000 attributable to the additional business generated by Edmodo. Revenue for the year ended 31 December 2018 attributable to the additional business generated by Edmodo approximated RMB8,436,000.

Had the acquisition been completed on 1 January 2018, total group revenue for the year ended 31 December 2018 would have been RMB5,040 million, and profit for the year ended 31 December 2018 would have been RMB471 million. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

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

Acquisition of Jumpstart Group

On 8 June 2017, Digital Train, an indirect non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with an independent third party (the "Seller"), pursuant to which the Seller conditionally agreed to sell and Digital Train conditionally agreed to acquire 100% equity interests of Jumpstart Group. The aggregate purchase price is the sum of the initial consideration of USD7,574,478 plus the contingent purchase price up to (but not in excess of) USD20,000,000. The completion of the Sale and Purchase Agreement took place on 1 July 2017. Jumpstart Group is engaged in developing, publishing and distributing multimedia educational gaming software and online content for use in schools, and homes and on mobile devices. Jumpstart Group was acquired so as to continue the expansion of the Group's education segment.

Consideration transferred

	RMB'000
Cash	3,388
Promissory note	47,946
Total	51,334

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FOR THE YEAR ENDED 31 DECEMBER 2018

46. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Jumpstart Group (Cont'd)

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

	RMB'000
Non-current assets	
Property, plant and equipment	97
Intangible assets	24,674
Current assets	
Trade receivables	5,838
Other receivables, prepayments and deposits	19,593
Bank balances and cash	1,023
Current liabilities	
Trade and other payables	(32,846)
Tax payable	(393)
Non-current liability	
Deferred tax liabilities	(13,591)
Net assets acquired	4,395

The fair values of trade receivables and other receivables are RMB5,838,000 and RMB403,000 respectively, which are also the gross contractual amounts of these receivables acquired. The best estimate at acquisition date of the contractual cash flows expected to be collected are the then entire outstanding amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

46. ACQUISITION OF SUBSIDIARIES (Cont'd)

Acquisition of Jumpstart Group (Cont'd)

Goodwill arising on acquisition of Jumpstart Group

	RMB'000
Consideration transferred	51,334
Less: Fair value of identifiable net assets acquired	(4,395)
Goodwill arising on acquisition	46,939

Goodwill arose on the acquisition of Jumpstart Group because the acquisition included the assembled workforce of Jumpstart Group and some potential contracts which are still under negotiation with prospective new customers as at the date of acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

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

Net cash outflow on acquisition of Jumpstart Group

	RMB'000
Consideration paid in cash	3,388
Less: Cash and cash equivalent balances acquired	(1,023)
	2,365

Impact of acquisition on the results of the Group

Included in the loss for the year ended 31 December 2017 was the loss of approximately RMB18,675,000 attributable to the additional business generated by Jumpstart Group. Revenue for the year ended 31 December 2017 attributable to the additional business generated by Jumpstart Group approximated RMB28,478,000.

Had the acquisition been completed on 1 January 2017, total group revenue for the year ended 31 December 2017 would have been RMB3,892 million, and loss for the year ended 31 December 2017 would have been RMB106 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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47. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investments in subsidiaries	**167,871**	167,871
Amounts due from subsidiaries	**1,177,469**	1,281,314
	1,345,340	1,449,185
Current assets		
Other receivables and prepayment	**9,159**	15,529
Amounts due from subsidiaries	**373,498**	120,664
Bank balances	**17,570**	446,036
	400,227	582,229
Current liabilities		
Other payables	**34,315**	31,907
Amounts due to subsidiaries	**1,894**	3,605
	36,209	35,512
Net current assets	**364,018**	546,717
Net assets	**1,709,358**	1,995,902
Capital and reserves		
Share capital	**38,863**	39,094
Share premium and reserves	**1,670,495**	1,956,808
	1,709,358	1,995,902

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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47. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

Movement in the Company's reserves:

	Share premium	Capital redemption reserve	Other reserve	Dividend reserve	Treasury share reserve	Employee share-based compensation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	830,126	6,155	(2,219)	44,374	(2,120)	20,357	154,839	1,051,512
Profit and total comprehensive income for the year	–	–	–	–	–	–	207,534	207,534
Repurchase and cancellation of shares	(48,946)	201	–	–	–	–	(201)	(48,946)
Shares issued upon exercise of share options	15,906	–	–	–	–	(4,983)	–	10,923
Issue of new shares	818,366	–	–	–	–	–	–	818,366
Recognition of equity-settled share-based payments	–	–	–	–	–	5,014	–	5,014
Awarded shares vested to employees	–	–	–	–	1,168	(3,754)	2,586	–
Final dividend for 2016 paid	–	–	–	(44,374)	–	–	(84)	(44,458)
Interim dividend for 2017 declared and paid	–	–	–	–	–	–	(43,137)	(43,137)
Final dividend for 2017 proposed	–	–	–	44,661	–	–	(44,661)	–
At 31 December 2017	1,615,452	6,356	(2,219)	44,661	(952)	16,634	276,876	1,956,808
Loss and total comprehensive expense for the year	-	-	-	-	-	-	(131,469)	(131,469)
Repurchase and cancellation of shares	(49,435)	239	-	-	-	-	(239)	(49,435)
Shares issued upon exercise of share options	2,615	-	-	-	-	(862)	-	1,753
Purchase of treasury shares	-	-	-	-	(39,324)	-	-	(39,324)
Recognition of equity-settled share-based payments	-	-	-	-	-	21,531	-	21,531
Awarded shares vested to employees	-	-	-	-	7,094	(9,012)	1,918	-
Final dividend for 2017 paid	-	-	-	(44,661)	-	-	72	(44,589)
Interim dividend for 2018 declared and paid	-	-	-	-	-	-	(44,780)	(44,780)
Final dividend for 2018 proposed	-	-	-	69,809	-	-	(69,809)	-
At 31 December 2018	1,568,632	6,595	(2,219)	69,809	(33,182)	28,291	32,569	1,670,495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

48. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes secured bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. The Group will balance its overall capital structure through the payment of dividends as well as issue new shares or return capital to owners.

49. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	**2,299,573**	–
Loans and receivables (including cash and cash equivalents)	**–**	2,249,548
Equity instruments at FVTOCI	**1,493**	–
Available-for-sale investments	**–**	10,859
	2,301,066	2,260,407
Financial liabilities		
Amortised cost	**812,702**	628,526
Convertible preferred shares at fair value	**108,904**	95,249
	921,606	723,775

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, equity instruments at FVTOCI, amount due from a related company, amounts due from associates, amount due from a joint venture, loan receivables, trade receivables, other receivables, restricted bank deposit, restricted bank balances, pledged bank deposits, bank deposit over three months, bank balances and cash, trade and other payables, amount due to a related company, amounts due to associates, secured bank borrowings, promissory note and convertible preferred shares. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

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FOR THE YEAR ENDED 31 DECEMBER 2018

49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk

(i) *Currency risk*

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

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities (including loan receivables, trade receivables, other receivables, restricted bank deposit, restricted bank balances, pledged bank deposits, bank deposit over three months, bank balances and cash, trade and other payables, promissory note and secured bank borrowings) at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**45,551**	403,477	**7,915**	4,017
USD	**650,913**	617,471	**247,160**	351,567
GBP	**151**	151	**4,466**	4,519
AUD	**1,501**	806	**–**	65
EURO	**59,804**	55,844	**–**	2,178

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FOR THE YEAR ENDED 31 DECEMBER 2018

49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD, USD, GBP, AUD or EURO. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit (2017: a decrease in post-tax loss) where RMB strengthen 5% against relevant foreign currencies and vice versa. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit/loss and vice versa.

	2018	2017
	RMB'000	RMB'000
Post-tax profit/loss		
HKD	**(1,411)**	(14,980)
USD	**(15,141)**	(9,971)
GBP	**162**	164
AUD	**(56)**	(28)
EURO	**(2,243)**	(2,012)

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49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(ii) Interest rate risk

The interest income is derived from the Group's restricted bank deposit, restricted bank balances, pledged bank deposits, bank deposit over three months and bank balances that carry interest at the respective banking deposit rate of the banks located in the PRC and Hong Kong and loan receivables.

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivables (Note 22).

The Group is exposed to cash flow interest rate risk in relation to variable-rate restricted bank deposit, restricted bank balances, pledged bank deposits, bank deposit over three months and bank balances (Note 34), variable-rate loan receivables (Note 22), variable-rate borrowings (Note 41) and promissory note (Note 42) carried at prevailing banking deposit rate. The cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR, LIBOR and benchmark interest rate of the People's Bank of China arising from the Group's bank borrowings. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings at the end of the reporting period. The analysis is prepared assuming the variable-rate borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2017: 50 basis points) increase or decrease in HIBOR, LIBOR and benchmark interest rate of the People's Bank of China is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by RMB1,218,000 (2017: post-tax loss would increase/decrease by RMB873,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk of trade receivables, contract assets, other receivables and loan receivables, 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 performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix, and trade receivables which are credit-impaired are assessed for ECL individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on restricted bank balances, pledged bank deposits, bank deposit over three months and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks located in the PRC. In this regard, the directors of the Company consider that the ECL on these balances is insignificant.

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 receivables, other receivables and contract assets with exposure spreading over a number of counterparties and customers.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	**Description**	**Trade receivables/ contract assets**	**Other financial assets/other items**
Low risk	The counterparty has a low risk of default and dose not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment (Cont'd)

The tables below detail the credit risk exposures of the Group's trade receivables, other receivables, loan receivables, amount due from a related company, amounts due from associates, amount due from a joint venture, restricted bank balances, pledged bank deposits, bank deposit over three months, bank balances and contract assets which are subject to ECL assessment:

Financial assets at amortised costs

2018	**Notes**	**External credit rating**	**Internal credit rating**	**12m or lifetime ECL**	**Gross carrying amount RMB'000**	**Gross carrying amount RMB'000**
Loan receivables	22	N/A	(Note 1)	12m ECL		**28,928**
Trade receivables	26	N/A	(Note 2)	Lifetime ECL (provision matrix)	**450,435**	
			Loss	Lifetime ECL (credit-impaired)	**18,436**	**468,871**
Other receivables	30	N/A	(Note 1)	12m ECL		**93,973**
Contract assets	31	N/A	(Note 2)	Lifetime ECL (provision matrix)		**32,164**
Amount due from a related company	32	N/A	(Note 1)	12m ECL		**140**
Amounts due from associates	33	N/A	(Note 1)	12m ECL		**2,105**
Amount due from a joint venture	33	N/A	(Note 1)	12m ECL		**751**
Restricted bank balances	34	IG*	N/A	12m ECL		**15,089**
Pledged bank deposits	34	IG*	N/A	12m ECL		**156,168**
Bank deposit over three months	34	IG*	N/A	12m ECL		**68,632**
Bank balances	34	IG*	N/A	12m ECL		**1,483,231**

* Investment Grade -The Standard & Poor's rating of the Group's significant bank accounts.

Notes:

1. In determining the ECL for loan receivables, other receivables, amount due from a related company, amounts due from associates and amount due from a joint venture, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate. The Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in these Group's outstanding balances is insignificant. Accordingly, no loss allowance on ECL was provided for these assets.

2. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for credit-impaired debtors, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Financial assets at amortised costs (Cont'd)

Provision matrix for trade receivables and contact assets - internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers on trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired). The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired). Trade receivables with credit-impaired with gross carrying amount of RMB18,436,000 as at 31 December 2018 were assessed individually. Out of the past due balances, RMB48,112,000 has been past due 90 days or more and is not considered as credit-impaired and considered as recoverable due to long term and on-going relationship with good repayment record from these customers based on historical experience.

Gross carrying amount

	Average loss rate	Trade receivables RMB'000
Low risk	0.07%	**318,259**
Watch list	0.42%	**84,064**
Doubtful	1.45%	**48,112**
		450,435

	Average loss rate	Contract assets RMB'000
Low risk	1.05%	**27,991**
Watch list	2.58%	**4,173**
		32,164

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The management of the Group assessed the expected loss on trade receivables by estimation based on historical credit loss experience, general economic conditions of the industry in which the debtors operate and an assessment both the current as well as the forecast direction of conditions at the reporting date. The directors of the Company are of the opinion that trade receivables that are not credit-impaired as for they are still considered fully recoverable due to long term/on-going relationship and good repayment record from these customers. Accordingly, no loss allowance on ECL for trade receivables based on provision matrix is recognised during the year ended 31 December 2018 as the amount is considered as insignificant. However, RMB18,436,000 of the balance of trade receivables are considered as credit-impaired as for there is evidence indicating the asset is credit-impaired.

49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Financial assets at amortised costs (Cont'd)

Provision matrix for trade receivables and contact assets - internal credit rating (Cont'd)

No loss allowance on ECL for contract assets based on provision matrix is recognised during the year ended 31 December 2018 as the amount is considered as insignificant.

During the year ended 31 December 2018, the Group provided RMB11,717,000 impairment allowance for trade receivables on credit-impaired debtors since there is evidence indicating the asset as credit-impaired and the recoverability of these balances is low.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables.

	Lifetime ECL (credit-impaired) RMB'000
As at 31 December 2017 under HKAS 39 and 1 January 2018	6,483
Impairment losses recognised, net of reversal	11,717
Impairment written off	(264)
Exchange adjustments	500
As at 31 December 2018	18,436

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating-rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2018					
Trade and other payables	**–**	**470,909**	**15,330**	**486,239**	**486,239**
Amount due to a related company	**–**	**982**	**–**	**982**	**982**
Amounts due to associates	**–**	**720**	**–**	**720**	**720**
Secured bank borrowings – variable rate	**4.24**	**156,634**	**191,453**	**348,087**	**324,761**
Convertible preferred shares	**24.40**	**–**	**135,477**	**135,477**	**108,904**
		629,245	**342,260**	**971,505**	**921,606**
2017					
Trade and other payables	–	345,188	2,693	347,881	347,881
Amount due to a related company	–	1,400	–	1,400	1,400
Amounts due to associates	–	305	–	305	305
Promissory note	4.61	47,282	–	47,282	46,226
Secured bank borrowings – variable rate	3.49	147,209	99,189	246,398	232,714
Convertible preferred shares	24.10	–	118,204	118,204	95,249
		541,384	220,086	761,470	723,775

Secured bank borrowings with a repayable on demand clause are included in the "on demand or less than 1 year" band in the above maturity analysis. As at 31 December 2018, the aggregate carrying amounts of these secured bank borrowings amounted to RMB16,648,000 (2017: RMB14,202,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate payment. The directors of the Company believe that such secured bank borrowings will be repaid within one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity Analysis – Secured bank borrowings with a repayable on demand clause based on scheduled repayments

	Less than 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2018	**16,680**	**16,680**	**16,648**
31 December 2017	14,231	14,231	14,202

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Fair value

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

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

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

Financial assets/ financial liability	Fair value as at 31 December 2018 RMB'000	Fair value as at 31 December 2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Available-for-sale investment	–	5,859	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity instrument at FVTOCI	1,493	–	Level 1	Quoted bid prices in an active market.	N/A	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Fair value (Cont'd)

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

Financial assets/ financial liability	Fair value as at 31 December 2018 RMB'000	Fair value as at 31 December 2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Convertible preferred shares	**108,904**	95,249	Level 3	Valuation of the principal cash flow: Income approach – In this approach, discount cash flow method was used to capture the present value of the expected future economic benefits to be derived.	Discount rate that reflected the expected rate of return ranging from 15.71% to 24.84% (2017: 15.20% to 24.10%).	The higher the discount rate, the lower the fair value.
				Valuation for the convertible options: Black-Scholes pricing model using key input: expected volatility.	Volatility 63.49% (2017: 58.01%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the lower the fair value.

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

The directors of the Company consider that the carrying amounts of financial assets and financial liability at amortised cost recognised in the consolidated financial statements approximate their fair values at the end of each reporting period.

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FOR THE YEAR ENDED 31 DECEMBER 2018

49. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Fair value (Cont'd)

(ii) Reconciliation of Level 3 fair value measurements

Reconciliation of Level 3 fair value measurements of financial asset

	Unlisted equity instrument at FVTOCI RMB'000
At 1 January 2018 (Note 2.2)	**5,000**
Fair value loss	**(5,000)**
At 31 December 2018	**–**

Reconciliation of Level 3 fair value measurements of financial liability

	Convertible preferred shares RMB'000
At 1 January 2017	104,101
Fair value change	(2,809)
Exchange adjustments	(6,043)
At 31 December 2017	**95,249**
Fair value changes	**(60,659)**
Issue of Series B convertible preferred shares (Note 46)	**64,556**
Exchange adjustments	**9,758**
At 31 December 2018	**108,904**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

50. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amounts of the assets pledged by the Group to secure the bank borrowings granted to the Group and to issue credit card facility as set out in Notes 34 and 41 are as follows:

	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	260,893	268,960
Prepaid lease payments	28,575	29,262
Security deposits (included in other receivables, prepayments and deposits)	–	1,097
Pledged bank deposits	156,168	145,084
	445,636	444,403

51. RETIREMENT BENEFITS PLANS

Defined contribution plan

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or HKD1,500 per person per month to the scheme, whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2018 made by the Group amounted to approximately RMB143,807,000 (2017: RMB131,468,000).

52. RELATED PARTY TRANSACTIONS

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

The Group had the following significant related party transactions during the year with certain companies in which some directors and shareholders of the Company can exercise significant influence or control.

Nature of transactions	2018 RMB'000	2017 RMB'000
Prepayment and deposit paid to Fuzhou 851 for lease contracts	34,455	–
Deposit paid to Fuzhou Tianliang for technical support service	25,000	–
Rentals charged by Fuzhou 851	6,412	6,924
Service fee at recreation centre paid to Fuzhou 851	8,333	7,000
After-sales service fee paid to Fuzhou Tianliang	8,956	9,346
Technical service fee paid to Fuzhou Tianliang	1,919	2,003
Education equipment and related goods purchased from 福建創思教育	1,911	6,383
Education equipment and related goods purchased from 福建一零一教育	–	9
Education equipment and related goods sold to 福建一零一教育	–	(2,867)
Interest receivable/received on loan advanced to key management	(424)	(243)
Property held for sale purchased from key management	–	9,213

Included in loan receivables as at 31 December 2018 was loan advanced to key management of approximately RMB8,806,000 (2017: RMB5,359,000), in which an amount of RMB3,432,000 (2017: RMB3,267,000) is secured by shares of a subsidiary, repayable on 31 August 2019 and carries interest of 5.125% (2017: 5%) per annum and the remaining amounts are unsecured, repayable on monthly instalment or repayable in whole on 15 January 2019 and 30 April 2022 and carries interest rate of 4.75% to 5.125% (2017: 4.75% to 4.90%) per annum.

Compensation of key management personnel

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

	2018 RMB'000	2017 RMB'000
Salaries, allowances and other short-term employee benefits	33,249	24,873
Contribution to retirement benefits schemes	411	467
Share-based payments expense	16,274	2,868
	49,934	28,208

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

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FOR THE YEAR ENDED 31 DECEMBER 2018

53. CAPITAL COMMITMENTS

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

	2018 **RMB'000**	2017 RMB'000
Capital expenditure in respect of the capital injection in a joint venture	**582,000**	582,000
Capital expenditure in respect of the acquisition of property, plant and equipment	**288,403**	542,636
Capital expenditure in respect of properties under development	**107,513**	35,743
	977,916	1,160,379

54. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of certain of its office premises under non-cancellable operating leases which fall due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**72,042**	67,693
In the second to fifth years inclusive	**62,772**	95,937
Over five years	**7,417**	5,918
	142,231	169,548

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 5 (2017: 5) years for office premises during the year ended 31 December 2018. Rentals are fixed over the respective leases.

The Group as lessor

Property rental income earned during the year was approximately RMB14,334,000 (2017: RMB6,803,000). The property is expected to generate rental yields of 18.5% (2017: 10.5%) per annum on an ongoing basis. The property held has committed tenants for the next 0.33 to 1.25 years.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2018 **RMB'000**	2017 RMB'000
Within one year	**8,228**	5,442
In the second to fifth years inclusive	**255**	2,792
	8,483	8,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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55. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Secured bank borrowings RMB'000	Dividend payables RMB'000	Promissory note RMB'000	Total RMB'000
At 1 January 2018	**232,714**	**–**	**46,226**	**278,940**
Financing cash flows	**81,084**	**(89,369)**	**(45,311)**	**(53,596)**
Non-cash changes:				
Exchange adjustments	**8,142**	**–**	**(915)**	**7,227**
Dividend declared	**–**	**89,369**	**–**	**89,369**
Facility arrangement fee	**2,821**	**–**	**–**	**2,821**
At 31 December 2018	**324,761**	**–**	**–**	**324,761**

	Secured bank borrowings RMB'000	Dividend payables RMB'000	Total RMB'000
At 1 January 2017	29,000	–	29,000
Financing cash flows	207,026	(87,595)	119,431
Non-cash changes:			
Exchange adjustments	(4,761)	–	(4,761)
Dividend declared	–	87,595	87,595
Facility arrangement fee	1,449	–	1,449
At 31 December 2017	232,714	–	232,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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56. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/ registered capital	Proportion of registered capital /issued share capital/equity interests and voting power held by the Company directly		indirectly		Principal activities
			2018	2017	**2018**	2017	
			%	%	**%**	%	
NetDragon BVI	BVI	USD222,203.93	**100**	100	**–**	–	Investment holding
NetDragon (Fujian) *	PRC	RMB10,100,000.00	**–**	–	**–**	–	Operation of online games
TQ Digital #	PRC	RMB545,000,000.00	**–**	–	**100**	100	Development of online games and licensing and servicing of the developed games
NetDragon Websoft Inc.	USA	USD600,000.00	**–**	–	**100**	100	Provision of support services to the Group
NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司)	Hong Kong	HKD1.00	**–**	–	**100**	100	Licensing and servicing of the developed games and provision for support services to the Group
Glory More Limited (展凱有限公司)	Hong Kong	HKD1.00	**–**	–	**100**	100	Investment holding
TQ Online #	PRC	RMB620,000,000.00	**–**	–	**100**	100	Development of online games and licensing and servicing of developed games
Cherrypicks Limited (創奇思有限公司)	Hong Kong	HKD150,000.00	**–**	–	**92.2**	92.2	Mobile solution, products and marketing business
Cherrypicks Alpha Resources (創奇思科研有限公司)	Hong Kong	HKD10,000.00	**–**	–	**100**	100	Development and provision of products in AR and computer vision with machine learning technology

56. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/ registered capital	Proportion of registered capital /issued share capital/equity interests and voting power held by the Company directly		indirectly		Principal activities
			2018	2017	**2018**	2017	
			%	%	**%**	%	
Best Assistant	Cayman Islands	USD1,304,765.24	**–**	–	**87.60**	87.44	Investment holding
Fujian Tianquan Education Technology Limited # (福建天泉教育科技有限公司) ("Fujian Tianquan")	PRC	RMB250,000,000.00	**–**	–	**87.60**	87.44	Operation and development of online education business
Fujian Huayu *	PRC	RMB200,000,000.00	**–**	–	**–**	–	Operation and development of online education business
Promethean World Limited	UK	GBP20,320,000.00	**–**	–	**87.60**	87.44	Sale of education hardware and software products
Fujian Tianjing Real Estate Development Limited (福建天景房地產開發有限公司)	PRC	RMB10,000,000.00	**–**	–	**100**	100	Property development

* The Group's control over, and beneficial interest in the equity of, these entities exist by virtue of certain contractual arrangements entered into with the Ultimate Controlling Shareholders involving these entities, which are established as limited liability companies under PRC law. The Group does not hold ownership interest in the registered capital of these subsidiaries. However, under the contractual agreements entered into among the entities, the Ultimate Controlling Shareholders who are the owners of the registered capital of these entities and the Group, the Group controls these entities by way of controlling all voting rights in owners' meetings of these entities and governing their financial and operating policies. Under the contractual arrangements, management committees are established to oversee the businesses and operations of these entities in order to ensure and facilitate the implementation of the contractual arrangements. The management committees shall comprise members, all of whom have to be directors of TQ Digital and Fujian Tianquan, subsidiaries of the Company, in order that the decision-making rights and the operating and financing activities of these entities are ultimately controlled by the Company. The Company is also entitled to substantially all of the operating profits and residual benefits by charging service fee equal to net profit generated by these entities under the contractual arrangements. In addition, the owners of the registered capital of these entities have irrecoverably authorised TQ Digital and Fujian Tianquan to exercise all their voting rights in NetDragon (Fujian) and Fujian Huayu, including the appointment and removal of the directors of these entities. As a result, these entities are regarded as subsidiaries under the control of the Group. Accordingly, the results of these entities, if any, and their assets and liabilities are included in the consolidated financial statements.

\# Wholly foreign owned enterprise.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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56. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong, the UK, the USA and the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	**Principal place of business**	**Number of subsidiaries**	
		2018	2017
Investment holding	Hong Kong	**20**	20
Investment holding	UK	**2**	2
Investment holding	PRC	**1**	1
Operation of games	PRC	**1**	1
Provision of support to the Group	PRC	**12**	11
Provision of support to the Group	Hong Kong	**1**	1
Provision of mobile solution, products and marketing business to the Group	Hong Kong	**18**	18
Provision of mobile solution, products and marketing business to the Group	PRC	**2**	2
Provision of mobile solution, products and marketing business to the Group	Indonesia	**1**	1
Provision of education business to the Group	PRC	**14**	11
Provision of education business to the Group	Thailand	**1**	1
Provision of education business to the Group	Macau	**1**	1
Provision of education business to the Group	USA	**1**	–
Sale of education hardware and software products	UK	**2**	2
Sale of education hardware and software products	USA	**2**	2
Sale of education hardware and software products	Germany	**1**	1
Sale of education hardware and software products	France	**1**	1
Sale of education hardware and software products	PRC	**1**	1
Sale of education hardware and software products	India	**1**	1
Sale of education hardware and software products	Russia	**1**	–
Provision of AR and virtual reality services	Hong Kong	**1**	1
Developing, publishing and distributing multimedia educational gaming software and online content	USA	**3**	3
Developing, publishing and distributing multimedia educational gaming software and online content	India	**1**	1
Developing, publishing and distributing multimedia educational gaming software and online content	Canada	**1**	–
		90	83