



2019 INTERIM REPORT

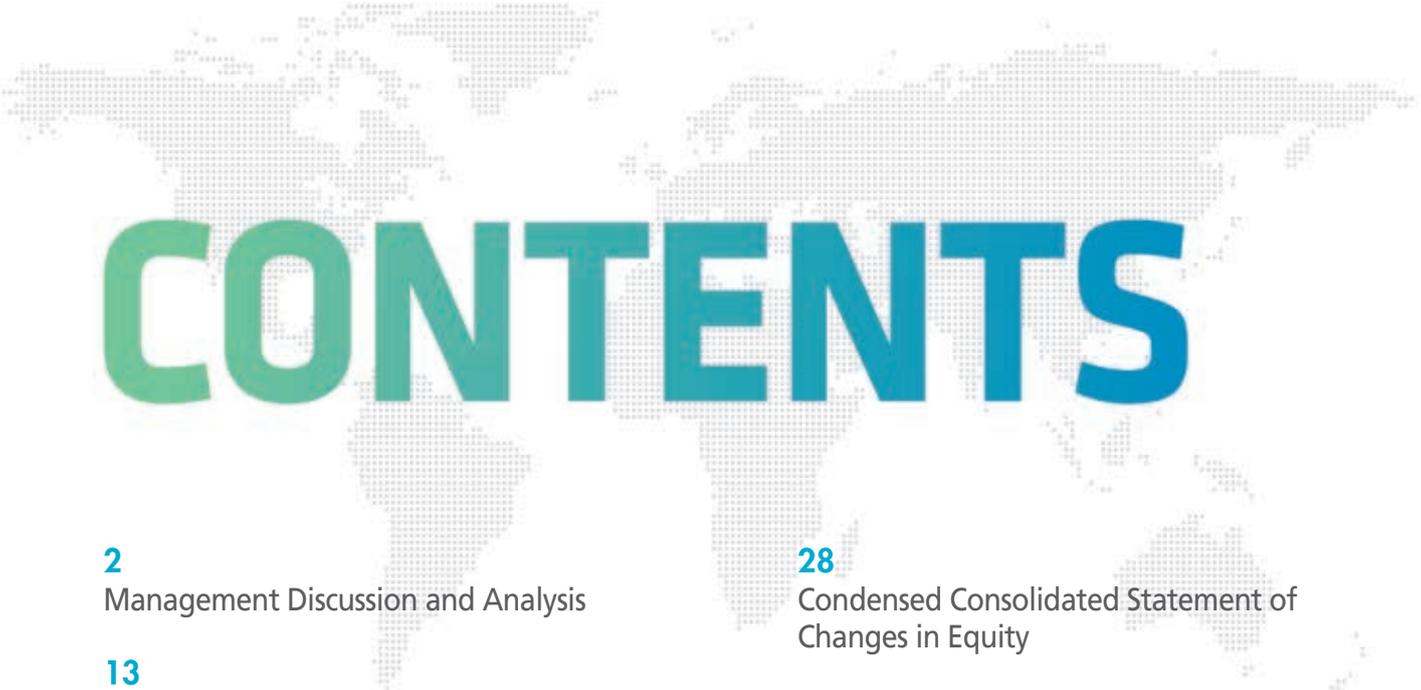
NETDRAGON WEBSOFT HOLDINGS LIMITED

網龍網絡控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 777





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MANAGEMENT DISCUSSION AND ANALYSIS

(1) FINANCIAL HIGHLIGHTS AND REVIEW

2019 First Half Financial Highlights

- Revenue was RMB2,672.5 million, representing an 8.2% increase year-over-year.
- Revenue from the games business was RMB1,575.8 million, representing 59.0% of the Group's total revenue and registering a 51.6% increase year-over-year.
- Revenue from the education business was RMB1,048.5 million, representing 39.2% of the Group's total revenue and registering a 24.2% decrease year-over-year. Excluding phase-two of the Moscow order in the second quarter of 2018, revenue from the education business represented a 4.7% increase year-over-year.
- Gross profit was RMB1,865.0 million, representing a 33.0% increase year-over-year.
- Cash inflow from operating activities was RMB420.3 million, compared to cash outflow from operating activities of RMB156.7 million for the same period of last year.
- Core segmental profit¹ from the games business was RMB972.1 million, representing an 85.4% increase year-over-year.
- Core segmental loss¹ from the education business was RMB308.9 million, representing a 94.7% increase year-over-year. The increase was largely due to consolidation of Edmodo for the full 6-month period and seasonality of the Moscow order as noted above.
- Non-GAAP operating profit² was RMB543.1 million, representing an 117.9% increase year-over-year.
- Profit attributable to owners of the Company was RMB421.0 million, representing an 109.7% increase year-over-year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Segmental Financial Highlights

(RMB'000)	2019 First Half		2018 First Half	
	Gaming	Education	Gaming	Education
Revenue	1,575,849	1,048,529	1,039,346	1,384,074
Gross profit	1,513,024	351,916	978,499	421,499
Gross margin	96.0%	33.6%	94.1%	30.5%
Core segmental profit (loss) ¹	972,053	(308,944)	524,376	(158,650)
Segmental operating expenses ³				
– Research and development	(255,204)	(239,038)	(222,443)	(214,525)
– Selling and marketing	(163,847)	(251,962)	(102,609)	(224,161)
– Administrative	(147,426)	(128,330)	(143,806)	(113,000)

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 and intangible assets.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(2) BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is excited that it delivered an excellent first half in 2019. Revenue reached another semi-annual record-high at RMB2,672.5 million with 8.2% year-over-year growth, while profit attributable to shareholders more than doubled to RMB421.0 million from RMB200.7 million in the same period of 2018.

Gaming business maintained its strong growth momentum with 51.6% year-over-year revenue growth in the first half of 2019. Mobile games revenue jumped by 76.2% year-over-year, while PC games maintained its remarkable growth with 47.5% year-over-year increase in revenue. The performance in the first half of 2019 was driven by across-the-board revenue growth coming from all of the major intellectual properties (“IP”) of the Group, including Eudemons Online (魔域), Heroes Evolved (英魂之刃) and Conquer Online (征服). The Group will continue to execute the growth strategy on the back of a strong pipeline and the approach to maximize IP values.

Education business also delivered solid performance as Promethean, the subsidiary of the Group, continued its global market leadership position in K-12 interactive classroom technologies with the largest market share in international markets. The core business continued to perform as the shipment volume of interactive flat panels in most of the core regions increased substantially in the first half of 2019 year-over-year. The large Moscow phase-two tender was a major revenue contributor in the second quarter of 2018, which led to a year-over-year drop in overall revenue for the education business in the first half of 2019. That being said, the Group is seeing strong traction with the tender business as it sees unprecedented volume of tender opportunities in the market, including those in Egypt, Russia and Turkey, and the ability to win these opportunities is stronger than ever. On the product side, the Group is excited by the commencement of the shipment of its new ActivPanel Elements Series in the second quarter of 2019. Customer feedback has been very positive and its premium model, namely ActivPanel Titanium, was a recent winner of the prestigious Red Dot Design Award. As such, the Group expects Promethean to see a very strong second half of 2019. Last but not least, the Group is under way to monetize its user base in the online community of Edmodo with a SaaS model as the Group is set to roll out its online tutoring services (AskMo) in the beginning of the upcoming school year in 2019.

In China, the Group is starting to execute the go-to-market strategy to start large-scale penetration of Promethean offerings with a recent major win in Fuzhou. The Group has also more than doubled the installed base of 101 Education PPT, the flagship platform, to 6.0 million as at 30 June 2019, and the active coverage with this platform has surpassed over 10 million students. In addition, the Group is on track to complete the development of the content distribution platform within 101 Education PPT in the second half of 2019, which will pave the way for the Group to start content monetization.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Gaming Business

Gaming business revenue increased by 51.6% year-over-year to RMB1,575.8 million in the first half of 2019. Mobile games revenue soared by 76.2% year-over-year, while PC games revenue growth remained robust at 47.5% year-over-year. The Group also performed well in the overseas markets, with 52.1% increase in revenue year-over-year. As a result of strong top line growth and positive operating leverage, gaming business's core segmental profit surged by 85.4% year-over-year.

In particular, Eudemons Online (魔域), the flagship IP, recorded 56.5% year-over-year increase in revenue of its PC and mobile version combined. On the back of the marketing activities and new expansion packs, the Group managed to increase gamers' loyalty and usage activities, while at the same time optimizing spending. One of the major marketing initiatives it carried out during the period was cross-industry collaboration with renowned celebrities and brands to enhance the market influence of Eudemons Online (魔域) IP in the first half of 2019. Revenue growth of Eudemons Online (魔域) IP that goes along with substantial increase in number of the active players as well as paying accounts is resulted.

The Group's other two major IPs, namely Heroes Evolved (英魂之刃) and Conquer Online (征服), also recorded solid revenue growth of 27.0% and 43.0% year-over-year respectively during the first quarter of 2019. Such revenue growth was attributable to the effort in marketing and promotion that has started to pay off. IP crossover collaboration was also a major theme, including a partnership to integrate OVERLORD, a popular Japanese anime, with Heroes Evolved (英魂之刃) IP during the first quarter of 2019, which led to a significant increase in gross billings. The Group also significantly stepped up its effort in enhancing the contents and user experience for the players in Conquer Online (征服) as it launched a total of 4 expansion packs during the first half of 2019.

Looking forward, the Group will continue to drive revenue and profit growth by maximizing its IP values with new games and new game-play features, as well as expanding its IP portfolio. The Group has a robust pipeline with over 10 new games under development or in testing stage, including Eudemons II, Heroes Evolved "Thrones", Battle of Giants, Cyber Legends and Vow of Heroes. The Group is in a position to launch multiple new games with different genres in the second half of 2019, as it sees a gradual opening up of new game licensing approvals by regulatory authorities.

Education Business

For the first half of 2019, revenue from the education business was RMB1,048.5 million, down 24.2% year-over-year. Excluding revenue from the large Moscow tender in the second quarter of 2018 (which the Group excludes for more comparable presentation as tender revenue tends to be irregular in timing), revenue from the education business represented a 4.7% increase year-over-year. Promethean continued to perform as shipment volume of the interactive flat panels increased by 28.9% in the first half of 2019 year-over-year, excluding the Moscow tender as noted above. The tender business is also seeing strong traction, as the global wave to digitize classrooms and leverage technologies to improve learning has resulted in an unprecedented volume of tender opportunities, especially in several emerging markets such as Egypt, Russia and Turkey. In January of 2019, the Group has signed a memorandum of understanding with The Ministry of Education of Egypt to design and deliver a total of 265,000 "Pop-up" classrooms with the education products of the Group including Promethean panels as well as the software platforms. Taking into account the momentum, the Group is seeing with both core business and tender opportunities, it expects Promethean to see a strong second half of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Education Business (Cont'd)

The Group has also made great progress in product innovation. During the first half of 2019, Promethean rolled out its next-generation interactive panel, the ActivPanel Elements Series, which is purpose-built to make teaching and learning more effective in a networked learning environment. Specifically, the Element Series will benefit teachers by enabling them to connect with students and use online content and applications to increase learning outcome while keeping students engaged. A platform which provides the foundation for future online monetization at the classroom level is resulted. This ground-breaking innovation has earned the Promethean ActivPanel Titanium model a recent winner of the prestigious Red Dot Design Award. The shipment of the ActivPanel Elements Series commenced in the second quarter of 2019 and the Group is seeing great demand going into the second half of 2019.

The Group continues to execute its monetization strategy at the home level, as the Group is on track to launch its online homework help service within Edmodo in the beginning of the upcoming school year starting in September 2019. The Group also expects to broaden its tutoring service to online 1-to-1 and 1-to-many video tutoring by the end of 2019.

In China, the strategy focus is to both expand user coverage and work towards monetization via a SaaS model. The Group has started to execute the go-to-market strategy to start large-scale penetration of Promethean offerings and the Group is excited to announce the first major win recently in Fuzhou covering approximately one hundred classrooms. Furthermore, the Group is continuing to deepen the penetration of 101 Education PPT, the flagship software platform with 6.0 million installations as at 30 June 2019 achieving a coverage of over 10 million active students. It is also on track to complete the development of the content distribution platform within 101 Education PPT in the second half of 2019, which will pave the way for monetization by enabling consumption of paid value-added contents on the platform. Last but not least, the Group is seeing a number of school-level SaaS platform opportunities which it is in a strong position to capitalize on given the capability to provide a complete product offering with unparalleled technology and design.

Looking forward, the Group is optimistic about the outlook as a result of rising traction in tender business, new product shipment as well as online user monetization. It is believed that the product differentiation and leading technologies will enable the Group to be fulfil its mission to revolutionize education with advanced technologies.

Project in Haixi Animation Creativity (the "Project")

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

Corporate Development Milestones and Awards for the First Half of 2019

2019

Corporate Development Milestones/Recognitions

March	Fujian Province Huayu Education Technology Limited (福建省華漁教育科技有限公司) was awarded "Top Ten Leading Brands of Intelligent Education in China in 2018-2019"* 「智慧教育2018-2019中國十大領軍品牌」 by China Intelligent Education Federation (中國智慧教育聯合會).
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* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(3) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2019, the Group had pledged bank deposits, bank deposit over three months, restricted bank balances and bank balances and cash of approximately RMB1,845.9 million (31 December 2018: RMB1,723.2 million).

As at 30 June 2019, the Group had net current assets of approximately RMB2,087.8 million as compared with approximately RMB1,872.5 million as at 31 December 2018.

(4) GEARING RATIO

The gearing ratio (consolidated secured bank borrowings/consolidated total equity) was 0.08 (31 December 2018: 0.07). As at 30 June 2019, total secured bank borrowings of the Group amounted to approximately RMB384.0 million (31 December 2018: RMB324.8 million) which were variable-rate loans. The bank borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, leasehold lands including in right-of-use assets, and corporate guarantee provided by the Company and its subsidiaries.

(5) CAPITAL STRUCTURE

As at 30 June 2019, the Group's total equity amounted to approximately RMB5,089.6 million (31 December 2018: RMB4,799.0 million).

(6) FOREIGN CURRENCY RISKS

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 period were mainly denominated and settled in HKD, AUD and EURO respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner. In this respect, our directors consider there is no significant foreign currency mismatch in its operational cash flows and the Group is not exposed to any significant foreign currency exchange risk in its operation.

(7) CREDIT RISKS

As at 30 June 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(7) CREDIT RISKS (Cont'd)

The credit risks 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 stated-owned banks located in the PRC. In this regard, the directors of the Company consider that the expected credit losses on these balances are 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.

(9) STAFF INFORMATION

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

	At 30 June 2019	At 31 December 2018	At 30 June 2018
Research and development	3,479	3,504	3,475
Selling and marketing	1,310	1,310	1,296
Accounting, finance and general administration	1,004	955	956
Production	329	331	311
Total	6,122	6,100	6,038

MANAGEMENT DISCUSSION AND ANALYSIS

(10) PERFORMANCE EVALUATION

HUMAN RESOURCES

The Group had its overall staff headcount of 6,122 as at 30 June 2019.

1. In the first half of 2019, talents were upgraded and more focused by integrating corporate strategies and objectives, a total of 530 talents were recruited, most of them were elites in the areas of games and education. In the second half of 2019, the Group will expand the publicity for key renowned universities across China and abroad, conduct campus recruitment activities in the autumn of 2020 and join the "Pilot Program (領航員計劃)" to look for elites.
2. The transaction-centric management model was implemented at the Company level with emphasis on individual actual contributions to the corporate. In terms of personnel management, values and contributions that an individual could produce was more focused and on such basis, colleagues were managed by performance evaluation, etc., and individual's motivation for the corporate was in turn improved.
3. In terms of talents and corporate management, flexible personnel and corporate management models were further explored. They were updated and cultivated by informal organizations, such as in the form of club, and in the way of gamification through continuous learning and task completion, which in turn providing professional and special talents for the Company and having the career development channels for employees enriched.
4. In terms of performance management, artificial intelligence technology was applied to enhance the overall management efficiency of the Company and explore new corporate management model with intelligence. New model for managing senior professional and technological talents' performances was explored and based on corporate goals, business goals and talents positioning, goal-driven and result-based management was strengthened to establish an evaluation system and reward and punishment mechanism which complies with self-management concept.
5. In terms of remuneration management, due to sustained attention to remuneration dynamic in the market, differentiated remuneration strategies were developed. Remuneration structures were constantly reviewed and optimized to ensure the remuneration competitiveness of core serials. In terms of short-term incentives, due to sustained attention to the effectiveness of incentives, streamline and analysis of proposals was conducted on a regular basis in order to make full use of short-term incentives and help to achieve business goals. In terms of long-term incentives, a performance and contribution orientation was highlighted with employees' high performance and high value as key incentives. Sustained efforts were made to promote benefits sharing between the corporate and its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

(11) STAFF 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 the first half of 2019, based on different business areas, NetDragon University established the School of Management, the Corporate Culture Publicity Department, the Experiencing and Learning Department, the School of Online Learning, the Production and Learning Combination Department, the School of Digital Education, etc.

Achievements in the first half of 2019

To support strategic development and key businesses of the Company, also, in response to the request for upgrading employees in key positions made by the Company at the beginning of the year 2019, deeper cooperation with the engineering institute and the programming centre was formed to upgrade the skills of key positions. In the first half of 2019, NetDragon University organized a total of 189 various training events with total attendance of 8,181 participants.

External Training:

Make A Difference (“MAD”) Forum: The MAD forum expected to build an ecosphere for development in places where the Group operates (such as Fuzhou, Xiamen, Chengdu, Wuhan, Chongqing, Beijing, etc.), which could develop into an alliance of developers for education platforms of the Group in the future to promote the Group’s technologies on education platforms, attract outstanding talents and promote external collaborations.

Internal Training:

Corporate Culture Succession: Firstly, in respect of corporate culture promotion, the Group adopted a gamification approach, conducted the “Cultural War of A Hundred Regiments (文化百團大戰)” events and also launched the “Corporate Culture Certification Examination (企業文化認證考試)” across internal departments within the Company at the same time. Secondly, Xin Qian Dao (心簽到), a cultural book product unique to the Group was created to spread and share contents therein, to build up a corporate culture of daily reflection and promote communication, learning and growth among colleagues.

Routine Training Projects:

Skills Training: NetDragon University organized a total of 28 various technical courses with total attendance of 893 participants.

New Staff Training: In the first half of 2019, a total of 10 training sessions were organized for new staff with a total number of 450 participants.

Design Theory Certification: In the first half of the year, a total of 9 sessions of design theory primary certification were organized and attended by a total of 376 participants.

MANAGEMENT DISCUSSION AND ANALYSIS

(12) CORPORATE CULTURE

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.

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.

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.

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.

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.

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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

(13) INTERIM DIVIDEND

On 28 August 2019, the Board has resolved to declare an interim dividend of HKD0.15 per share for the six months ended 30 June 2019 (2018: HKD0.10 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 12 September 2019. It is expected that the interim dividend will be distributed on or before 18 October 2019.

(14) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 12 September 2019 to Friday, 13 September 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2019, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 11 September 2019.

OTHER INFORMATION

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

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	255,822,457 (L)	48.22%
Liu Dejian <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Leung Lim Kin, Simon <i>(Note 4)</i>	The Company	Beneficial owner	1,465,350 (L)	0.28%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and beneficiary of certain trust	255,822,457 (L)	48.22%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	255,822,457 (L)	48.22%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%

OTHER INFORMATION

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

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Chen Hongzhan <i>(Note 5)</i>	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.11%
Chao Guowei, Charles <i>(Note 6)</i>	The Company	Beneficial owner	338,500 (L)	0.06%
Lee Kwan Hung, Eddie <i>(Note 7)</i>	The Company	Beneficial owner	692,019 (L)	0.13%
Liu Sai Keung, Thomas <i>(Note 8)</i>	The Company	Beneficial owner	718,019 (L)	0.14%

Notes:

- The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
- Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 36.02% 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 5.32% 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 3.59% 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 48.22% 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.

OTHER INFORMATION

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

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 0.28% of the issued voting shares of the Company which is represented by beneficial interest of 1,465,350 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 0.06% of the issued voting shares of the Company which is being the underlying shares of interest of 338,500 shares options granted by the Company.
7. Lee Kwan Hung, Eddie 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 0.14% of the issued voting shares of the Company which is represented by personal interest of 19 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2019, 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.

OTHER INFORMATION

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

So far as is known to the Directors, as at 30 June 2019, 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 <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (1)	36.02%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320 (1)	14.77%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320 (1)	14.77%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095 (1)	13.85%
Jardine PTC Limited <i>(Note 3)</i>	The Company	Trustee	26,541,819 (1)	5.00%

OTHER INFORMATION

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

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.05%, 9.81%, 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. 26,541,819 shares directly held by Richmedia Holdings Limited, a company wholly-owned by Jardine PTC Limited, which held relevant interest in trust for Liu Luyuan.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 June 2019.

OTHER INFORMATION

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the company dated 24 May 2018, the company adopted a new share option scheme (the "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 period ended 30 June 2019 are as follows:

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options			As at
			1 January 2019	Granted	Exercised	Lapsed	30 June 2019
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, Eddie	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	343,492	—	1,625	—	341,867
	22.07.2011	4.60	8,000	—	—	—	8,000
	23.04.2012	5.74	150,117	—	20,100	—	130,017
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	251,325	—	42,575	—	208,750
	25.04.2014	14.66	278,000	—	—	—	278,000
	11.05.2015	27.75	134,000	—	69,800	—	64,200
Total			<u>2,689,684</u>	<u>—</u>	<u>134,100</u>	<u>—</u>	<u>2,555,584</u>

OTHER INFORMATION

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.

120,000 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company on 23 April 2019. 1,689,094 awarded shares granted to a number of selected participants were outstanding as at 30 June 2019. 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 508,240 vested awarded shares as at 30 June 2019, a total of 319,980 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.

Best Assistant Education Online Limited ("Best Assistant")

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

OTHER INFORMATION

SHARE AWARD SCHEME *(Cont'd)*

Best Assistant Education Online Limited ("Best Assistant") *(Cont'd)*

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

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

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

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 87.56% to approximately 79.22%.

As at 30 June 2019, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

OTHER INFORMATION

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) was satisfied by (i) payment of an amount in cash equal to USD15,000,000 and (ii) the issue of 112,560,245 Best Assistant Series B Shares.

As at 30 June 2019, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2019.

INTERIM DIVIDEND

On 28 August 2019, the Board has resolved to declare an interim dividend of HKD0.15 per share for the six months ended 30 June 2019 (2018: HKD0.10 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 12 September 2019. It is expected that the interim dividend will be distributed on or before 18 October 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 12 September 2019 to Friday, 13 September 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2019, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 11 September 2019.

OTHER INFORMATION

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's interim results for the six months ended 30 June 2019 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2019, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

NetDragon Websoft Holdings Limited

Liu Dejian

Chairman

Hong Kong, 28 August 2019

REPORT ON REVIEW OF
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**Deloitte.****德勤****TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Holdings Limited (the "Company") and its subsidiaries set out on pages 24 to 82, which comprise the condensed consolidated statement of financial position as of 30 June 2019, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu*Certified Public Accountants*

Hong Kong

28 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	NOTES	Six months ended 30 June	
		2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue	4	2,672,547	2,469,941
Cost of revenue		(807,554)	(1,067,810)
Gross profit		1,864,993	1,402,131
Other income and gains	4	52,753	39,817
Impairment loss under expected credit loss model, net of reversal	24	(81)	(13)
Selling and marketing expenses		(421,809)	(332,584)
Administrative expenses		(431,654)	(409,546)
Development costs		(502,390)	(442,233)
Other expenses and losses		(79,080)	(45,430)
Share of losses of associates		(951)	(265)
Share of loss of a joint venture		(1,418)	(198)
Operating profit		480,363	211,679
Interest income on pledged bank deposits		1,513	1,755
Exchange gain (loss) on secured bank borrowings and convertible preferred shares		123	(4,172)
Net gain on convertible preferred shares		13,436	26,953
Net loss on disposal of property held for sale		—	(68)
Finance costs		(11,374)	(5,358)
Profit before taxation		484,061	230,789
Taxation	6	(108,575)	(53,047)
Profit for the period	7	375,486	177,742

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
<i>NOTE</i>	RMB'000	<i>RMB'000</i>
Other comprehensive (expense) income for the period, net of income tax:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(478)	(3,109)
Item that will not be reclassified to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	63	(232)
Other comprehensive expense for the period	(415)	(3,341)
Total comprehensive income for the period	375,071	174,401
Profit (loss) for the period attributable to:		
– Owners of the Company	421,026	200,740
– Non-controlling interests	(45,540)	(22,998)
	375,486	177,742
Total comprehensive income (expense) attributable to:		
– Owners of the Company	420,844	198,055
– Non-controlling interests	(45,773)	(23,654)
	375,071	174,401
	RMB cents	<i>RMB cents</i>
Earnings per share		
– Basic	79.66	37.63
– Diluted	79.52	37.55

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTES	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	1,839,615	1,657,417
Right-of-use assets	11	431,920	—
Prepaid lease payments		—	293,228
Investment properties	13	77,586	77,281
Intangible assets	14	792,729	824,991
Interests in associates	15	52,640	23,591
Interest in a joint venture	16	14,298	15,716
Equity instruments at fair value through other comprehensive income		1,556	1,493
Loan receivables		11,091	12,850
Prepayments and deposits	20	27,752	45,564
Contract assets	21	—	2,389
Deposits made for acquisition of property, plant and equipment		2,489	7,698
Goodwill	19	378,693	390,640
Deferred tax assets		38,218	38,169
		3,668,587	3,391,027
Current assets			
Properties under development	12	626,125	536,848
Inventories	17	311,221	267,420
Prepaid lease payments		—	6,636
Loan receivables		27,826	16,078
Trade receivables	18	721,005	450,435
Other receivables, prepayments and deposits	20	367,073	320,360
Contract assets	21	23,766	29,775
Amounts due from related companies	22	288	140
Amounts due from associates	22	2,132	2,105
Amount due from a joint venture	22	1,360	751
Amount due from a director	22	400	—
Tax recoverable		11,979	1,126
Restricted bank balances	23	15,089	15,089
Pledged bank deposits	23	156,359	156,168
Bank deposit over three months		—	68,632
Bank balances and cash		1,674,425	1,483,352
		3,939,048	3,354,915

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTES	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Current liabilities			
Trade and other payables	25	885,357	783,040
Contract liabilities	21	610,951	412,462
Lease liabilities		56,047	—
Provisions		73,215	59,936
Amounts due to related companies	26	988	982
Amounts due to associates	26	135	720
Secured bank borrowings	28	58,633	155,157
Dividend payable		69,998	—
Tax payable		95,947	70,095
		<u>1,851,271</u>	<u>1,482,392</u>
Net current assets		<u>2,087,777</u>	<u>1,872,523</u>
Total assets less current liabilities		<u>5,756,364</u>	<u>5,263,550</u>
Non-current liabilities			
Other payables		18,679	22,219
Convertible preferred shares	27	95,651	108,904
Secured bank borrowings	28	325,389	169,604
Lease liabilities		68,015	—
Deferred tax liabilities		159,063	163,843
		<u>666,797</u>	<u>464,570</u>
Net assets		<u>5,089,567</u>	<u>4,798,980</u>
Capital and reserves			
Share capital	29	38,815	38,863
Share premium and reserves		5,229,735	4,893,941
		<u>5,268,550</u>	<u>4,932,804</u>
Equity attributable to owners of the Company		5,268,550	4,932,804
Non-controlling interests		(178,983)	(133,824)
		<u>5,089,567</u>	<u>4,798,980</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Attributable to owners of the Company

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000 <i>(Note a)</i>	Other reserve RMB'000 <i>(Note b)</i>	Capital reserve RMB'000 <i>(Note c)</i>	Statutory reserves RMB'000 <i>(Note d)</i>	Dividend reserve RMB'000	Revaluation reserve RMB'000	Treasury share reserve RMB'000 <i>(Note e)</i>	Employee share-based compensation reserve RMB'000	Translation reserve RMB'000	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 2018	39,094	1,615,452	6,356	26,391	10,035	336,406	44,661	22,449	(952)	16,634	(111,992)	–	2,544,633	4,549,167	(65,106)	4,484,061
Profit (loss) for the period	–	–	–	–	–	–	–	–	–	–	–	–	200,740	200,740	(22,998)	177,742
Other comprehensive expense for the period	–	–	–	–	–	–	–	–	–	–	(2,453)	(232)	–	(2,685)	(656)	(3,341)
Total comprehensive (expense) income for the period	–	–	–	–	–	–	–	–	–	–	(2,453)	(232)	200,740	198,055	(23,654)	174,401
Repurchase and cancellation of shares	(72)	(16,295)	72	–	–	–	–	–	–	–	–	–	(72)	(16,367)	–	(16,367)
Purchase of treasury shares	–	–	–	–	–	–	–	–	(39,324)	–	–	–	–	(39,324)	–	(39,324)
Shares issued upon exercise of share options	7	2,498	–	–	–	–	–	–	–	(831)	–	–	–	1,674	–	1,674
Recognition of equitysettled share-based payments	–	–	–	–	–	–	–	–	–	12,280	–	–	–	12,280	–	12,280
Awarded shares vested to employees	–	–	–	–	–	–	–	–	6,784	(7,994)	–	–	1,210	–	–	–
Acquisition of additional equity interests from a non-controlling interest	–	–	–	(2,386)	–	–	–	–	–	–	–	–	–	(2,386)	1,314	(1,072)
Final dividend for 2017 paid	–	–	–	–	–	–	(44,661)	–	–	–	–	–	72	(44,589)	–	(44,589)
Interim dividend for 2018 proposed	–	–	–	–	–	–	44,973	–	–	–	–	–	(44,973)	–	–	–
Transfers	–	–	–	–	–	67	–	–	–	–	–	–	(67)	–	–	–
At 30 June 2018 (unaudited)	39,029	1,601,655	6,428	24,005	10,035	336,473	44,973	22,449	(33,492)	20,089	(114,445)	(232)	2,701,543	4,658,510	(87,446)	4,571,064
At 31 December 2018 (audited)	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
Adjustments (Note 3.1.2)	–	–	–	–	–	–	–	–	–	–	–	–	(13,685)	(13,685)	(1,002)	(14,687)
At 1 January 2019 (restated)	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)	2,893,308	4,919,119	(134,826)	4,784,293
Profit (loss) for the period	–	–	–	–	–	–	–	–	–	–	–	–	421,026	421,026	(45,540)	375,486
Other comprehensive (expense) income for the period	–	–	–	–	–	–	–	–	–	–	(245)	63	–	(182)	(233)	(415)
Total comprehensive (expense) income for the period	–	–	–	–	–	–	–	–	–	–	(245)	63	421,026	420,844	(45,773)	375,071
Repurchase and cancellation of shares	(57)	(8,745)	57	–	–	–	–	–	–	–	–	–	(57)	(8,802)	–	(8,802)
Shares issued upon exercise of share options	9	3,166	–	–	–	–	–	–	–	(1,000)	–	–	–	2,175	–	2,175
Recognition of share awards granted by a subsidiary not yet vested	–	–	–	–	–	–	–	–	–	–	–	–	–	–	61	61
Recognition of equitysettled share-based payments	–	–	–	–	–	–	–	–	–	6,960	–	–	–	6,960	–	6,960
Awarded shares vested to employees	–	–	–	–	–	–	–	–	7,341	(8,796)	–	–	1,455	–	–	–
Contribution from non-controlling interest of a subsidiary	–	–	–	(126)	–	–	–	–	–	–	–	–	–	(126)	1,106	980
Acquisition of additional equity interests from non-controlling interests (Note b)	–	–	–	(1,811)	–	–	–	–	–	–	–	–	–	(1,811)	449	(1,362)
Disposal of a subsidiary (Note 32)	–	–	–	–	–	(38)	–	–	–	–	–	–	38	–	–	–
Final dividend for 2018 declared	–	–	–	–	–	–	(69,809)	–	–	–	–	–	–	(69,809)	–	(69,809)
Interim dividend for 2019 proposed	–	–	–	–	–	–	69,998	–	–	–	–	–	(69,998)	–	–	–
At 30 June 2019 (unaudited)	38,815	1,563,053	6,652	21,736	10,035	405,749	69,998	22,449	(25,841)	25,455	(107,046)	(8,277)	3,245,772	5,268,550	(178,983)	5,089,567

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Notes:

- a. The amount represented the nominal value of the shares repurchased by the Company.
- b. Other reserve represented the difference between the consideration and the carrying amount of net assets value disposed or acquired for the deemed disposal of subsidiaries and acquisition of additional equity interest of subsidiaries with no change of control over those subsidiaries. During the six months ended 30 June 2019, the Group acquired additional equity interests in three subsidiaries at a total consideration of RMB1,362,000. The difference between the amount of adjustments to the non-controlling interests of RMB449,000 and the fair value of the consideration paid amounting to RMB1,811,000 is recognised directly in other reserve.
- 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit for the period	375,486	177,742
Adjustments for:		
Taxation	108,575	53,047
Interest income on bank balances, pledged bank deposits, loan receivables and refundable rental deposits	(8,485)	(7,688)
Net gain on convertible preferred shares	(13,436)	(26,953)
Gain on fair value change of investment properties	—	(8,962)
Amortisation of intangible assets	45,019	42,041
Amortisation of prepaid lease payments	—	3,294
Depreciation of property, plant and equipment	80,958	76,222
Depreciation of right-of-use assets	39,269	—
Impairment on goodwill	12,534	—
Impairment on intangible assets	18,437	—
Interest expense on secured bank borrowings and promissory note (included in finance costs)	7,836	5,358
Loss on disposal of a subsidiary	58	—
Others	14,674	13,133
Operating cash flows before movements in working capital	680,925	327,234
Increase in trade receivables	(270,618)	(560,046)
Increase in inventories	(43,801)	(21,102)
Increase in properties under development	(89,277)	(64,447)
Increase in other receivables, prepayments and deposits	(65,192)	(98,001)
Increase in trade and other payables	98,773	222,749
Increase in contract liabilities	198,489	58,153
Increase in provisions	12,517	8,967
Others	7,804	4,134
Cash generated from (used in) operations	529,620	(122,359)
Interest paid	(10,939)	(5,317)
Income tax paid	(98,379)	(29,045)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	420,302	(156,721)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
NOTES			
INVESTING ACTIVITIES			
		(258,692)	(250,104)
		(30,836)	(15,535)
		(30,000)	—
		(1,269)	(6,603)
	32	(383)	—
		(168)	(160)
		67,112	—
	31	—	(92,425)
		—	8,857
		—	5,243
		—	5,000
		(609)	—
		(155)	—
		(651)	3,807
NET CASH USED IN INVESTING ACTIVITIES		(255,651)	(341,920)
FINANCING ACTIVITIES			
		77,063	153,993
		980	—
		(1,362)	(1,072)
		2,175	1,674
		(27,948)	—
		(16,976)	(16,445)
		(8,802)	(16,367)
		—	(45,311)
		—	(44,589)
		—	(39,324)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		25,130	(7,441)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		189,781	(506,082)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		1,483,352	1,578,477
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		1,292	1,692
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH		1,674,425	1,074,087

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL

NetDragon Websoft Holdings Limited (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, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong.

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle

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

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)*Leasehold land and building*

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value and subsequently at amortised cost. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option which is reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

Lease liabilities (Cont'd)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group shall account for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use assets to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease and recognising in profit or loss any gain or loss relating to the partial or full termination of the lease; and
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Cont'd)

As a lessor*Allocation of consideration to components of a contract*

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value and subsequently at amortised cost. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 4.00% to 12.12% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

	<i>NOTES</i>	At 1 January 2019 <i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018		<u>142,231</u>
Lease liabilities discounted at relevant incremental borrowing rates		127,551
Add: Extension options reasonably certain to be exercised	(i)	4,030
Less: Lease liabilities resulting from lease modifications of existing leases	(ii)	(1,707)
Recognition exemption - short-term leases		(1,920)
Recognition exemption - lease term ends within 12 months of the date of initial application		<u>(6,985)</u>
Lease liabilities as at 1 January 2019		<u>120,969</u>
Analysed as:		
Current		59,725
Non-current		<u>61,244</u>
		<u>120,969</u>

Notes:

- (i) After considering all relevant facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, the Group has assessed that it is reasonably certain to exercise several extension options included in the lease contracts. Rental for the extended lease term is pre-determined based on the existing lease contracts.
- (ii) Based on the facts and circumstances on the leases with termination options, the Group has applied the practical expedient under HKFRS 16 to use hindsight and account the leases being early terminated after the date of initial application as lease modifications of the existing contracts upon application of HKFRS 16.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessee (Cont'd)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	NOTES	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	(a)	106,916
Reclassified from prepaid lease payments	(b)	299,864
Reclassified from other receivables, prepayment and deposits	(c)	30,303
		<u>437,083</u>
By class:		
Land and buildings		135,345
Motor vehicles		1,874
Leasehold lands		299,864
		<u>437,083</u>

- (a) The Group measured right-of-use assets and refundable rental deposits at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition.

As at 1 January 2019, the Group recognised RMB106,282,000 as right-of-use assets after discounted using the incremental borrowing rates. In addition, based on the definition of lease payments under HKFRS 16, such refundable rental 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 would be considered as additional lease payments and included in right-of-use assets. Accordingly, out of the refundable rental deposits of RMB23,114,000 as at 31 December 2018, (i) RMB1,677,000 was adjusted to refundable rental deposits paid and right-of-use assets and (ii) the effect of interest income arising from refundable rental deposits since the commencement dates to 31 December 2018 of RMB1,457,000 and RMB106,000 were adjusted to retained profits and non-controlling interests respectively as at 1 January 2019. In addition, there is RMB1,043,000 relating to accrued lease liabilities for leases of properties in which the lessors provided rent-free period, the carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted as the Group measured right-of-use assets at carrying amounts as if HKFRS 16 had been applied since the commencement dates by applying HKFRS 16.C8(b)(i) transition.

- (b) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB6,636,000 and RMB293,228,000 respectively were reclassified to right-of-use assets.
- (c) Upfront payments for the leases of properties were classified as prepayments in other receivables, prepayments and deposits as at 31 December 2018. Upon application of HKFRS 16, the payments amounting to RMB30,303,000 was reclassified to right-of-use assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

As a lessor

In accordance with the transition provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (d) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective from 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (e) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. No adjustment was made on refundable rental deposits received as the amount is considered as insignificant.

The following table summarises the impact of transition to HKFRS 16 on retained profits and non-controlling interests at 1 January 2019.

	Retained profits	Non- controlling interests	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Impact of adopting HKFRS 16 at 1 January 2019			
Difference between the carrying amount of right-of-use assets and lease liabilities	(15,142)	(1,108)	(16,250)
Effect of interest income arising from refundable rental deposits	1,457	106	1,563
	<u>(13,685)</u>	<u>(1,002)</u>	<u>(14,687)</u>

The amount represents the difference between the carrying amount of right-of-use assets as if HKFRS 16 has been applied at the commencement dates of the leases and the lease liabilities of the leases at the date of initial application and the effect of interest income arising from refundable rental deposits since the commencement dates to 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Cont'd)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Cont'd)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	NOTES	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current assets				
Right-of-use assets		—	437,083	437,083
Prepaid lease payments	(b)	293,228	(293,228)	—
Prepayments and deposits	(a), (c)	45,564	(18,531)	27,033
Current assets				
Prepaid lease payments	(b)	6,636	(6,636)	—
Other receivables, prepayments and deposits	(a), (c)	320,360	(13,449)	306,911
Current liabilities				
Trade and other payables	(a)	783,040	(1,043)	781,997
Lease liabilities		—	59,725	59,725
Non-current liabilities				
Lease liabilities		—	61,244	61,244
Capital and reserves				
Share premium and reserves		4,893,941	(13,685)	4,880,256
Non-controlling interests		(133,824)	(1,002)	(134,826)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 January 2019 as disclosed above.

The application of HKFRS 16 has no material impact on the condensed consolidated financial statements of the Group, as a lessor, for the six months ended 30 June 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

3.2 Significant changes in significant judgements

Determination on lease term of contracts with renewal options

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. The Group has considered all relevant facts and circumstances that create an economic incentive for lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

4. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Online and mobile games revenue	1,575,849	1,039,346
Education revenue (including sales of education equipment and related goods and educational services)	1,048,529	1,384,074
Mobile solution, products and marketing revenue	48,169	46,521
	2,672,547	2,469,941

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

Disaggregation of revenue

Types of goods and services

Revenue from sales of pre-paid game cards for online and mobile games
Sales of education equipment and related goods
Revenue from provision of mobile solution, products and marketing services
Revenue from educational services

Six months ended 30 June 2019 (Unaudited)			
Online and mobile games revenue	Education revenue	Mobile solution, products and marketing revenue	Total
RMB'000	RMB'000	RMB'000	RMB'000
1,575,849	—	—	1,575,849
—	993,707	—	993,707
—	—	48,169	48,169
—	54,822	—	54,822
1,575,849	1,048,529	48,169	2,672,547

Revenue from sales of pre-paid game cards for online and mobile games
Sales of education equipment and related goods
Revenue from provision of mobile solution, products and marketing services
Revenue from educational services

Six months ended 30 June 2018 (Unaudited)			
Online and mobile games revenue	Education revenue	Mobile solution, products and marketing revenue	Total
RMB'000	RMB'000	RMB'000	RMB'000
1,039,346	—	—	1,039,346
—	1,340,535	—	1,340,535
—	—	46,521	46,521
—	43,539	—	43,539
1,039,346	1,384,074	46,521	2,469,941

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

Disaggregation of revenue (Cont'd)

Timing of revenue recognition

A point in time

Over time

Six months ended 30 June 2019 (Unaudited)			
Online and mobile games revenue	Education revenue	Mobile solution, products and marketing revenue	Total
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1,575,849	993,707	—	2,569,556
—	54,822	48,169	102,991
<u>1,575,849</u>	<u>1,048,529</u>	<u>48,169</u>	<u>2,672,547</u>

Six months ended 30 June 2018 (Unaudited)

A point in time

Over time

Online and mobile games revenue	Education revenue	Mobile solution, products and marketing revenue	Total
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1,039,346	1,340,802	—	2,380,148
—	43,272	46,521	89,793
<u>1,039,346</u>	<u>1,384,074</u>	<u>46,521</u>	<u>2,469,941</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

Disaggregation of revenue (Cont'd)

Geographical information

	Six months ended 30 June 2019 (Unaudited)			
	Online and mobile games revenue <i>RMB'000</i>	Education revenue <i>RMB'000</i>	Mobile solution, products and marketing revenue <i>RMB'000</i>	Total <i>RMB'000</i>
PRC	1,467,973	86,104	—	1,554,077
United States of America ("USA")	94,138	548,377	—	642,515
United Kingdom	—	121,913	—	121,913
Germany	—	58,112	—	58,112
Hong Kong	—	194	45,975	46,169
France	—	36,132	—	36,132
Egypt	—	33,055	—	33,055
Australia	—	23,978	—	23,978
Spain	—	17,491	—	17,491
Netherlands	—	13,345	—	13,345
Russia	—	6,795	—	6,795
Vietnam	—	3,584	—	3,584
India	—	3,418	—	3,418
Others	13,738	96,031	2,194	111,963
	1,575,849	1,048,529	48,169	2,672,547

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

Disaggregation of revenue (Cont'd)

Geographical information (Cont'd)

	Six months ended 30 June 2018 (Unaudited)			
	Online and mobile games revenue <i>RMB'000</i>	Education revenue <i>RMB'000</i>	Mobile solution, products and marketing revenue <i>RMB'000</i>	Total <i>RMB'000</i>
PRC	968,463	110,267	—	1,078,730
USA	56,307	529,491	—	585,798
Russia	—	389,306	—	389,306
United Kingdom	—	112,311	—	112,311
Germany	—	61,151	—	61,151
Hong Kong	—	215	43,557	43,772
France	—	34,229	—	34,229
Netherlands	—	14,748	—	14,748
Vietnam	—	13,548	—	13,548
Australia	—	11,644	—	11,644
India	—	11,370	—	11,370
Spain	—	8,468	—	8,468
Egypt	—	1,963	—	1,963
Others	14,576	85,363	2,964	102,903
	<u>1,039,346</u>	<u>1,384,074</u>	<u>46,521</u>	<u>2,469,941</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Other income and gains		
Government grants <i>(Note)</i>	34,861	8,090
Interest income on bank balances, loan receivables and refundable rental deposits	6,972	5,933
Net foreign exchange gain	1,572	9,570
Gain on fair value change of investment properties	—	8,962
Game implementation income	413	938
Rental income, net of negligible outgoing expenses	7,446	4,860
Server rental income	23	11
Gain arising from early termination of a lease agreement	358	—
Others	1,108	1,453
	52,753	39,817

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 RMB3,336,000 (2018: RMB3,399,000) for the six months ended 30 June 2019 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. SEGMENT INFORMATION

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

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

Six months ended 30 June 2019

	Online and mobile games (Unaudited) RMB'000	Education (Unaudited) RMB'000	Mobile solution, products and marketing (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	<u>1,575,849</u>	<u>1,048,529</u>	<u>48,169</u>	<u>2,672,547</u>
Segment profit (loss)	<u>1,065,874</u>	<u>(385,703)</u>	<u>(10,483)</u>	<u>669,688</u>
Unallocated other income and gains				8,466
Unallocated expenses and losses				<u>(194,093)</u>
Profit before taxation				<u>484,061</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2018

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

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned or loss incurred from each segment without allocation of unallocated income, gains, expenses and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. SEGMENT INFORMATION (Cont'd)

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Online and mobile games	3,368,536	2,988,020
Education	3,307,874	2,835,697
Mobile solution, products and marketing	164,084	179,559
Total segment assets	6,840,494	6,003,276
Unallocated	767,141	742,666
	7,607,635	6,745,942

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 fair value through other comprehensive income ("FVTOCI"), loan receivables, properties under development, certain right-of-use assets/prepaid lease payments and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

6. TAXATION

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current period	6,436	4,060
– Under provision in prior years	138	38
	6,574	4,098
PRC Enterprise Income Tax ("EIT")		
– Current period	107,764	53,115
– Withholding tax	24	52
– Over provision in prior years	–	(2,499)
	107,788	50,668
Taxation in other jurisdictions		
– Current period	(611)	2,240
– Over provision in prior years	(191)	(208)
	(802)	2,032
Deferred tax		
– Current period	(4,985)	(3,751)
	108,575	53,047

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

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%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

6. TAXATION (Cont'd)

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

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 both periods.

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 both periods is 15%.

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

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.

The USA income tax rates applicable to subsidiaries incorporated in the USA is 21% for federal tax and 8.84% for state income tax for both periods.

The United Kingdom Corporate Tax Rate applicable to subsidiaries is 19% for both periods.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	10,813	12,468
Other staff costs:		
Salaries and other benefits	803,590	730,480
Contributions to retirement benefits schemes	73,071	72,408
Share-based payments expense	1,256	5,659
Redundancy payments	9,191	11,595
	897,921	832,610
Amortisation of intangible assets	45,019	42,041
Amortisation of prepaid lease payments (included in administrative expenses)	—	3,294
Depreciation of property, plant and equipment	80,958	76,222
Depreciation of right-of-use assets	39,269	—
Total depreciation and amortisation	165,246	121,557
Cost of education equipment sold recognised in cost of revenue	627,715	913,361
Impairment of goodwill	12,534	—
Impairment of intangible assets	18,437	—
Gross rental income from investment properties with negligible outgoing expenses	(948)	(894)
Net loss on disposal of property, plant and equipment	1,665	298
Gain on fair value change of investment properties	—	(8,962)
Total net foreign exchange gain	(1,695)	(5,398)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

8. DIVIDENDS

During the current interim period, a dividend of HKD0.15 per share (2018: HKD0.10 per share) was approved by the shareholders as the final dividend for the year ended 31 December 2018 amounted to RMB69,809,000 and was subsequently paid in July 2019. The aggregate amount of the final dividend for the year ended 31 December 2017 paid in 2018 amounted to approximately RMB44,589,000.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.15 per share, amounting to HKD79,574,000 (equivalent to RMB69,998,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 12 September 2019.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings for the purpose of basic and diluted earnings per share:		
– profit for the period attributable to owners of the Company	421,026	200,740
	528,523	533,482
	953	1,094
	529,476	534,576

	Number of shares	
	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of shares in issue during the period for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	528,523	533,482
Effect of dilutive potential shares from the Company's share option scheme	953	1,094
Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	529,476	534,576

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

10. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB2,090,000 (six months ended 30 June 2018: RMB492,000) for cash proceeds of RMB425,000 (six months ended 30 June 2018: RMB194,000), resulting in a loss on disposal of RMB1,665,000 (six months ended 30 June 2018: RMB298,000).

During the six months ended 30 June 2019, the deposits of approximately RMB6,478,000 (six months ended 30 June 2018: RMB3,498,000) were transferred to property, plant and equipment and the Group spent approximately RMB258,692,000 (six months ended 30 June 2018: RMB250,104,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB39,151,000 (six months ended 30 June 2018: RMB39,913,000) in plant and equipment and RMB211,985,000 (six months ended 30 June 2018: RMB207,617,000) in construction in progress.

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of RMB2,379,000 through acquisition of a subsidiary.

11. RIGHT-OF-USE ASSETS

During the current interim period, the Group entered into several new lease agreements for the use of land and buildings for 2 to 4 years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised right-of-use assets of RMB37,274,000 and lease liabilities of RMB37,274,000.

In addition, the Group early terminated a lease agreement as a lease modification, amounting to RMB3,730,000 during the current interim period. Accordingly, the Group adjusted lease liabilities of RMB4,088,000 and recognised a gain of RMB358,000 which is included in other income and gains during the current interim period.

12. 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 30 June 2019 and 31 December 2018, the properties under development are expected to be realised within twelve months from the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. INVESTMENT PROPERTIES

The fair values of the Group's investment properties, including both land and building elements, as at 30 June 2019 and 31 December 2018 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. Asset Appraisal Limited is a member of The Hong Kong Institute of Surveyors. The fair values of the investment properties are determined based on the market approach which uses the prices and other relevant information generated by market transactions involving comparable properties. One of the key inputs used in valuing the investment properties is the sales prices of properties nearby the Group's investment properties which ranged from HKD30,520 (equivalent to RMB26,800) per sq.ft to HKD33,000 (equivalent to RMB29,000) per sq.ft (31 December 2018: ranged from HKD26,435 (equivalent to RMB23,200) per sq.ft to HKD32,800 (equivalent to RMB28,700) per sq.ft), where sq.ft is a common unit of area used in Hong Kong. An increase in the sales prices would result in an increase in fair value measurement of the investment properties, and vice versa. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. The investment properties were commercial property units located in Hong Kong categorised into Level 3 of the fair value hierarchy as at 30 June 2019 and 31 December 2018.

No fair value gain of the investment properties for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB8,962,000) was recognised in other income and gains.

14. INTANGIBLE ASSETS

During the six months ended 30 June 2019, the Group spent approximately RMB30,836,000 (six months ended 30 June 2018: RMB15,535,000) for the acquisition of intangible assets to expand its operations. During the six months ended 30 June 2018, an amount of RMB127,096,000 (six months ended 30 June 2019: Nil) was acquired upon the acquisition of a subsidiary.

During the six months ended 30 June 2019, the directors of the Company identified that the recoverable amounts of certain trademarks, license and others (representing authorisation rights) arising from the subsidiaries in education segment of the Group are less than their carrying amounts. Accordingly, the carrying amounts of these intangible assets are reduced to their recoverable amounts and recognised an impairment loss included in "other expenses and losses" of RMB18,437,000 (six months ended 30 June 2018: Nil).

15. INTERESTS IN ASSOCIATES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Unlisted investments:		
Cost of investments	67,992	37,992
Share of post-acquisition losses	(15,352)	(14,401)
Group's share of net assets of associates	52,640	23,591

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

15. INTERESTS IN ASSOCIATES (Cont'd)

As at 30 June 2019 and 31 December 2018, the Group had interests in the following associates:

Name of entities	Proportion of ownership interest and voting rights held by the Group		Country of establishment/ operation	Registered capital	Principal activities
	30 June 2019	31 December 2018			
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	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%	15.0%	PRC	RMB9,411,800	Provision of online education and related application business
長沙憶不容辭教育科技有限責任公司 ("長沙憶不容辭") / (Note c)	20.0%	N/A	PRC	RMB2,000,000	Provision of online education and related application business

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

15. INTERESTS IN ASSOCIATES (Cont'd)

Notes:

- The Group holds 49% of the issued share capital of 101 Cayman, 101 BVI, 101 HK and 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 30 June 2019 and 31 December 2018.
- 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 30 June 2019 and 31 December 2018.
- The Group holds 20% of the registered capital of 長沙憶不容辭, and has the power to appoint one director out of five directors in the board. Therefore, 長沙憶不容辭 is classified as an associate of the Group as at 30 June 2019.

16. INTEREST IN A JOINT VENTURE

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Unlisted investment:		
Cost of investment	18,000	18,000
Share of post-acquisition loss	(3,702)	(2,284)
Group's share of net assets of a joint venture	14,298	15,716

Name of entity	Proportion of ownership interest and voting rights held by the Group		Country of establishment/operation	Registered capital	Principal activities
	30 June 2019	31 December 2018			
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. INVENTORIES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Raw materials	7,491	8,107
Work in progress	79	155
Finished goods	303,651	259,158
	311,221	267,420

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

18. TRADE RECEIVABLES

The Group generally allows a credit period ranging from 30 days to 90 days to its distribution and payment channels/trade customers.

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.

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade debtors		
0 - 30 days	508,692	233,932
31 - 60 days	84,485	107,939
61 - 90 days	39,669	45,849
Over 90 days	79,709	54,563
Receivables aged over 90 days with extended credit terms		
Due within one year	8,450	8,152
	721,005	450,435

19. IMPAIRMENT TESTING ON GOODWILL

During the six months ended 30 June 2019, the cash-generating unit 4 (the "CGU-4") of education business, as described in consolidated financial statements of the Group for the year ended 31 December 2018, incurred losses in the current period, and its recoverable amount was assessed to be less than the carrying amount. The directors of the Company have consequently determined impairment of goodwill directly related to the CGU-4 amounting to RMB12,534,000 included in "other expenses and losses". No other write-down of the assets of the CGU-4 unit is considered necessary. Management of the Group determines that there is no impairment of the other CGUs containing goodwill or trademarks with indefinite useful lives.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Prepayments to suppliers	156,147	108,573
Prepayments for rented premises, utilities and server	68,653	103,912
Refundable rental and guarantee deposits	59,703	61,744
Other receivables from agent for repurchasing the shares of the Company	—	8,760
Interest receivables	1,617	3,387
Prepaid tax arising from properties under development	55,782	35,423
Other tax recoverable	30,169	24,043
Others	22,754	20,082
	394,825	365,924
Analysed for financial reporting purpose:		
Current	367,073	320,360
Non-current	27,752	45,564
	394,825	365,924

Included in prepayments for rented premises, utilities and server and refundable rental and guarantee deposits, there are balances of:

- (i) RMB1,581,000 (31 December 2018: RMB1,704,000) which represents refundable rental 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") as at 30 June 2019. The corresponding prepayment of these lease contracts to Fuzhou 851 amounting to RMB28,888,000 as at 31 December 2018 was reclassified as right-of-use assets upon application of HKFRS 16 as at 1 January 2019.
- (ii) RMB25,000,000 (31 December 2018: RMB25,000,000) 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 30 June 2019.

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For the six months ended 30 June 2019

21. CONTRACT ASSETS/LIABILITIES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Contract assets:		
Mobile solution, products and marketing services	14,317	21,188
Education equipment and related goods	9,449	10,976
	23,766	32,164
Analysed for financial reporting purpose:		
Current	23,766	29,775
Non-current	—	2,389
	23,766	32,164
Contract liabilities:		
Online and mobile games	28,196	33,367
Education equipment and related goods	202,874	175,831
Mobile solution, products and marketing services	1,140	386
Educational services	8,099	14,267
Sales of properties	370,642	188,611
	610,951	412,462

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.

The contract liabilities include unutilised game points on online and mobile games, advance payments from customers for contracted education equipment and related goods and services, advance payments from customers for mobile solution, products and marketing services and advance payments from customers for educational services. The contract liabilities are transferred to revenue when customers control and receive the goods, services and benefits.

Sales of properties represent 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

22. AMOUNT(S) DUE FROM RELATED COMPANIES/ASSOCIATES/ A JOINT VENTURE/A DIRECTOR

As at 30 June 2019 and 31 December 2018, the amounts due from related companies and amounts due from associates are not trade in nature, unsecured, non-interest bearing and repayable on demand.

As at 30 June 2019 and 31 December 2018, the amount due from a joint venture and a director are not trade in nature, unsecured, non-interest bearing and repayable on demand. Maximum balance for amount due from a director during the six months ended 30 June 2019 is RMB400,000.

23. RESTRICTED BANK BALANCES/PLEDGED BANK DEPOSITS

As at 30 June 2019, restricted bank balances represent bank balances for guarantee completion of constructions and pledged bank deposits represent deposits pledged to banks to secure a bank borrowing granted to the Group, to obtain credit card facility and letter of credit facility and to secure a lease.

As at 31 December 2018, 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.

24. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Impairment loss recognised in respect of trade receivables, net of reversal	81	13

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018.

During the current interim period, the Group provided impairment allowance, net of reversal, of RMB81,000 (six months ended 30 June 2018: RMB13,000), in particular, a specific loss allowance of RMB81,000 (six months ended 30 June 2018: RMB13,000) has been made to an individual debtor as there is evidence indicating the assets as credit-impaired and the recoverability of these balances is low.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

25. TRADE AND OTHER PAYABLES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade payables	451,344	281,236
Accrued staff costs	161,154	224,604
Government grants <i>(Note a)</i>	16,781	12,974
Receipt in advance	385	385
Other tax payables	32,310	38,633
Advertising payable	44,511	33,862
Payables for purchase of property, plant and equipment	10,967	13,120
Consultancy fee payable	17,178	25,000
Refundable rental deposits	2,957	2,952
Consideration payable <i>(Note b)</i>	8,800	8,800
Payables for purchase of intangible assets	6,631	6,631
Accrued expenses <i>(Note c)</i>	57,222	35,535
Other payables <i>(Note d)</i>	75,117	99,308
	885,357	783,040

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) The amount represents the remaining consideration payable for acquisition of several subsidiaries in prior years.
- (c) Accrued expenses mainly represent accrued duty and freight fee, legal and professional fee and other miscellaneous items for operating activities.
- (d) Others mainly represent construction payable for construction in progress and properties under development and other miscellaneous items for operating activities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

25. TRADE AND OTHER PAYABLES (Cont'd)

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
0 - 90 days	325,845	252,832
91 - 180 days	95,794	21,552
181 - 365 days	19,517	698
Over 365 days	10,188	6,154
	451,344	281,236

26. AMOUNT(S) DUE TO RELATED COMPANIES/ASSOCIATES

The amounts are trade in nature, aged within 90 days, unsecured, non-interest bearing and repayable on demand.

27. CONVERTIBLE PREFERRED SHARES

On 13 February 2015, Best Assistant Education Online Limited ("Best Assistant"), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to 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., 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 RMB780,713,000) to Fortis Advisors LLC as a consideration to acquire Edmodo, Inc. ("Edmodo"). The Series B convertible preferred shares are denominated in USD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

27. CONVERTIBLE PREFERRED SHARES (Cont'd)

Conversion

The Series A and Series B convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to certain adjustments (such as proportional adjustment and anti-dilution adjustment).

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

Dividends

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

Liquidation

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

27. CONVERTIBLE PREFERRED SHARES (Cont'd)

Liquidation (Cont'd)

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

The movements of the convertible preferred shares for the period/year are set out as below:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
At the beginning of the period/year	108,904	95,249
Issue of Series B convertible preferred shares	—	64,556
Fair value changes	(13,436)	(60,659)
Exchange adjustments	183	9,758
At the end of the period/year	95,651	108,904

28. SECURED BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB77,063,000 (six months ended 30 June 2018: RMB153,993,000). The secured bank borrowings carry interest at (i) higher of twelve-month London Inter-Bank Offer Rate ("LIBOR") plus 0.50% or 3.40% per annum, (ii) one-month Hong Kong Inter-Bank Offer Rate ("HIBOR") plus 2.20% or 2.90% 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, (iv) benchmark interest rate of five-year borrowings of the People's Bank of China plus 6.12% per annum or (v) interest rate of 4.94% or 6.00% per annum, and are repayable from 2019 to 2022. The borrowings were secured by a pledged bank deposit as mentioned in Note 23, a pledge of property of a subsidiary, leasehold lands including in right-of-use assets, corporate guarantee provided by the Company and corporate guarantee provided by subsidiaries.

The secured bank borrowings as at 31 December 2018 carry interest at (i) higher of twelve-month LIBOR plus 0.50% or 3.25% per annum, (ii) one-month HIBOR plus 2.20% or 2.90% 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, and are repayable from 2019 to 2022.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

29. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2018, 30 June 2018, 31 December 2018, and 30 June 2019	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2018	534,285,791	5,342,858	39,094
Shares issued upon exercise of share options <i>(Note ii)</i>	115,400	1,154	7
Repurchase and cancellation of shares <i>(Note ii)</i>	(981,500)	(9,815)	(72)
At 30 June 2018	533,419,691	5,334,197	39,029
Shares issued upon exercise of share options	10,525	105	1
Repurchase and cancellation of shares	(2,284,000)	(22,840)	(167)
At 31 December 2018	531,146,216	5,311,462	38,863
Shares issued upon exercise of share options <i>(Note i)</i>	134,100	1,341	9
Repurchase and cancellation of shares <i>(Note i)</i>	(784,000)	(7,840)	(57)
At 30 June 2019	530,496,316	5,304,963	38,815

Notes:

- (i) During the six months ended 30 June 2019, 134,100 share options were exercised and as a result of 134,100 ordinary shares were issued. Approximately RMB9,000 and RMB3,166,000 were recorded as share capital and share premium, respectively. The Company repurchased 784,000 of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was RMB8,802,000.
- (ii) During the six months ended 30 June 2018, 115,400 share options were exercised and as a result of 115,400 ordinary shares were issued. Approximately RMB7,000 and RMB2,498,000 were recorded as share capital and share premium, respectively. The Company repurchased 981,500 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 RMB16,367,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

30. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

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

	Number of share options
Outstanding as at 1 January 2019	2,689,684
Exercised during the period	(134,100)
Outstanding as at 30 June 2019	<u>2,555,584</u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD21.45. The Group recognised the total expenses of RMB495,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB917,000) in relation to share options granted by the Company.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

(ii) Share award scheme by the Company

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

The Group recognised the total expenses of RMB6,465,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB11,362,000) in relation to the Award.

Movements in the share awards granted during the six months ended 30 June 2019 and the year ended 31 December 2018 are as follows:

Six months ended 30 June 2019

Name of category of participant	Date of grant	Outstanding at 1 January 2019	Granted during period	Awards vested during period	Forfeited during period	Outstanding at 30 June 2019
Other employees	19 April 2018	1,106,880	—	(188,260)	(241,820)	676,800
Director	19 April 2018	872,640	—	(199,980)	(18,180)	654,480
Director	23 April 2019	—	120,000	(120,000)	—	—
		<u>1,979,520</u>	<u>120,000</u>	<u>(508,240)</u>	<u>(260,000)</u>	<u>1,331,280</u>

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
		<u>69,950</u>	<u>2,496,990</u>	<u>(586,100)</u>	<u>(1,320)</u>	<u>1,979,520</u>

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 share awards were forfeited on 1 September 2018. No share awards were outstanding at 30 June 2019 and 31 December 2018.

Among the Award granted on 19 April 2018, 388,240 share awards were vested during the six months ended 30 June 2019 (for the year ended 31 December 2018: 517,470 share awards). 443,760, 443,760 and 443,760 share awards will be vested on 30 April 2020, 30 April 2021 and 30 April 2022, respectively. 260,000 share awards were forfeited in April 2019.

Among the Award granted on 23 April 2019, 120,000 share awards were granted and vested during the six months ended 30 June 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

(iii) Share awarded by a subsidiary of the Company

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

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

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

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

Best Assistant has granted 80,000 share awards to a selected participant on 1 July 2017 and 16,000 and 24,000 share awards were vested and released during the year ended 31 December 2017 and 2018 respectively. The number of share awards outstanding at 30 June 2019 was 40,000. 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. The number of share awards outstanding at 30 June 2019 was 480,000, 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 respectively.

The Group recognised the total expenses of approximately RMB61,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB12,000) in relation to the share awards.

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For the six months ended 30 June 2019

31. ACQUISITION OF A SUBSIDIARY

Acquisition of Edmodo

On 6 April 2018, Digital Train Limited ("Digital Train"), an indirect non-wholly owned subsidiary of the Company, entered into an agreement (the "Agreement") with independent third parties (the "Sellers"), pursuant to which the Sellers agreed to sell and Digital Train agreed to acquire 100% equity interests of Edmodo, for consideration in the form of cash and the Series B convertible preferred shares collectively valued in the amount of USD25,130,000 (equivalent to RMB160,158,000). The consideration was satisfied by the payment of an amount in cash equal to USD15,000,000 (equivalent to 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

	<i>RMB'000</i>
Cash	95,602
Series B convertible preferred shares	64,556
	<hr/>
Total	160,158
	<hr/> <hr/>

Acquisition-related costs amounting to RMB6,135,000 had been excluded from the cost of acquisition and are recognised directly as expenses when they are incurred.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

31. ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of Edmodo (Cont'd)

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

	<i>RMB'000</i>
Non-current assets	
Property, plant and equipment	2,379
Pledged bank deposits	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	<u>95,714</u>

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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31. ACQUISITION OF A SUBSIDIARY (Cont'd)

Acquisition of Edmodo (Cont'd)

Goodwill arising on acquisition of Edmodo

	<i>RMB'000</i>
Consideration transferred	160,158
Less: Fair value of identifiable net assets acquired	<u>(95,714)</u>
Goodwill arising on acquisition	<u><u>64,444</u></u>

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

	<i>RMB'000</i>
Consideration paid in cash	95,602
Less: Cash and cash equivalent balances acquired	<u>(3,177)</u>
	<u><u>92,425</u></u>

Impact of acquisition on the results of the Group

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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32. DISPOSAL OF A SUBSIDIARY

During the current interim period, the Group entered into a sale agreement to dispose of its entire equity interest in 北京企航互動網絡科技有限公司 (“北京企航”) to a director of the Company with consideration of RMB400,000. The purpose of the disposal is to concentrate on the Group’s other businesses. The disposal was completed on 20 April 2019, and the Group lost control of 北京企航 on the same date.

	<i>RMB'000</i>
Consideration receivable	400
Analysis of assets and liabilities over which control was lost	
Property, plant and equipment	57
Other receivables	23
Amount due from a fellow subsidiary	7
Bank balances and cash	383
Amount due to a fellow subsidiary	(9)
Amount due to an immediate holding company	(3)
Net assets disposed of	458
Loss on disposal of a subsidiary	
Amount due from a director	400
Net assets disposed of	(458)
Loss on disposal	(58)
Cash outflow arising on disposal	
Bank balances and cash disposed of	(383)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

33. RELATED PARTY TRANSACTIONS

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

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

Name of related parties	Relationship
Fuzhou 851	DJM, the immediate holding company of the Company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, has 100% equity interest in this entity.
Fuzhou Tianliang	Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, acting under the instruction of the Ultimate Controlling Shareholders of the Company.
福建創思教育	福建創思教育 is an associate of the Group which the Group holds 49% of the issued share capital in this entity.
國騰	國騰 is a joint venture of the Group which the Group holds 60% of the issued share capital in this entity.
北京企航	北京企航 is an entity wholly owned by Mr. Zheng Hui, the executive director of the Group.

Nature of transactions	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Rental charges paid to Fuzhou 851	—	3,654
Service fee at recreation centre paid to Fuzhou 851	—	3,856
After-sales service fee paid to Fuzhou Tianliang	4,595	4,636
Technical service fee paid to Fuzhou Tianliang	985	993
Goods purchased from 福建創思教育	450	700
Goods sold to 北京企航	(2)	—
Goods sold to 國騰	(167)	—
Interest income on loan advanced to key management	(219)	(201)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

33. RELATED PARTY TRANSACTIONS (Cont'd)

Included in loan receivables as at 30 June 2019 was loan advanced to key management of approximately RMB8,710,000 (31 December 2018: RMB8,806,000), in which an amount of RMB3,437,000 (31 December 2018: RMB3,432,000) is secured by shares of a subsidiary, repayable on 31 August 2019 and carries interest of 5.125% (31 December 2018: 5.125%) per annum and the remaining amounts are unsecured, repayable on monthly instalment, or repayable in whole on 14 January 2020 and 30 April 2022 (31 December 2018: 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% (31 December 2018: 4.75% to 5.125%) per annum. Pursuant to the supplement loan agreement dated 15 January 2019, the loan portion which was originally repayable on 15 January 2019 was extended to be repayable on 14 January 2020. Except for such extension, all other terms of the loan remained unchanged.

Compensation of key management personnel

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	20,202	12,065
Contribution to retirement benefits schemes	317	221
Share-based payments expense	7,764	9,349
	28,283	21,635

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

34. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

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

Financial asset/ financial liability	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000				
Equity instrument at FVOCI	1,556	1,493	Level 1	Quoted bid prices in an active market.	N/A	N/A
Convertible preferred shares	95,651	108,904	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 14.28% to 23.87% (31 December 2018: 15.71% to 24.84%).	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 51.10% (31 December 2018: 63.49%) is estimated based on the historical volatilities of the comparable companies.	The higher the expected volatility, the lower the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

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

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

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

Reconciliation of Level 3 fair value measurements of financial liability

	Convertible preferred shares <i>RMB'000</i>
At 1 January 2018	95,249
Issue of Series B convertible preferred shares	64,556
Fair value changes	(26,953)
Exchange adjustments	3,666
	<hr/>
At 30 June 2018	136,518
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At 1 January 2019	108,904
Fair value changes	(13,436)
Exchange adjustments	183
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At 30 June 2019	95,651
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Fair value measurements and valuation process

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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The finance department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the finance department's findings to explain the cause of fluctuations in the fair value of the assets and liabilities.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

35. CAPITAL COMMITMENTS

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) 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	461,830	288,403
Capital expenditure in respect of properties under development	131,613	107,513
	<u>1,175,443</u>	<u>977,916</u>