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NetDragon Websoft Inc.

網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2015**

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2015. The first quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the “Auditor”) of the Company, 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 (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2015 together with the comparative figures in 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2015

		Three months ended	
		31 March	
		2015	2014
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	246,216	217,091
Cost of revenue		<u>(39,023)</u>	<u>(21,084)</u>
Gross profit		207,193	196,007
Other income and gains	4	26,544	47,348
Selling and marketing expenses		(30,826)	(29,130)
Administrative expenses		(106,926)	(56,875)
Development costs		(87,889)	(40,954)
Other expenses		(5,556)	(1,893)
Share of losses of associates		<u>(3,545)</u>	<u>(88)</u>
Operating (loss) profit		(1,005)	114,415
Interest income on pledged bank deposit		1,590	841
Exchange loss on pledged bank deposit and secured bank borrowing		—	(4,163)
Net gain on derivative financial instrument		—	4,726
Gain on disposal of held-for-trading investment		1,401	—
Net (loss) gain on held-for-trading investments		(9,741)	1,093
Finance costs		<u>(817)</u>	<u>(1,117)</u>
(Loss) profit before taxation		(8,572)	115,795
Taxation	6	<u>(4,493)</u>	<u>(38,042)</u>
(Loss) profit for the period	7	(13,065)	77,753
Other comprehensive income for the period, net of income tax			
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss		<u>299</u>	<u>553</u>
Total comprehensive (expense) income for the period		<u>(12,766)</u>	<u>78,306</u>

		Three months ended	
		31 March	
		2015	2014
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTE</i>	RMB'000	RMB'000
(Loss) profit for the period attributable to:			
- Owners of the Company		(10,914)	79,662
- Non-controlling interests		<u>(2,151)</u>	<u>(1,909)</u>
		<u>(13,065)</u>	<u>77,753</u>
 Total comprehensive (expense) income attributable to:			
- Owners of the Company		(10,615)	80,215
- Non-controlling interests		<u>(2,151)</u>	<u>(1,909)</u>
		<u>(12,766)</u>	<u>78,306</u>
		RMB cents	RMB cents
(Loss) earnings per share	9		
- Basic		(2.21)	15.70
- Diluted		<u>N/A</u>	<u>15.61</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2015**

		31 March 2015	31 December 2014
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	10	907,930	822,704
Prepaid lease payments	11	440,648	378,673
Intangible assets		140,142	141,254
Interests in associates		25,250	28,795
Available-for-sale investments		5,000	5,000
Loan receivables		19,181	18,327
Deposits made for acquisition of property, plant and equipment		10,270	35,967
Goodwill		40,013	40,013
Deferred tax assets		54	54
		<u>1,588,488</u>	<u>1,470,787</u>
Current assets			
Prepaid lease payments	11	2,731	2,708
Loan receivables		2,080	1,578
Trade receivables	12	72,443	51,072
Amounts due from customers for contract work		8,303	7,252
Other receivables, prepayments and deposits		162,079	210,098
Amount due from a related company		1,704	1,704
Amounts due from associates		635	367
Held-for-trading investments		196,387	211,584
Pledged bank deposit	13	237,703	236,805
Bank deposits		965,465	1,999,644
Bank balances and cash		<u>2,113,360</u>	<u>1,036,788</u>
		<u>3,762,890</u>	<u>3,759,600</u>

		31 March	31 December
		2015	2014
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade and other payables	14	179,857	209,214
Amounts due to customers for contract work		686	424
Deferred income		23,877	25,595
Amount due to a related company		1,008	1,891
Amount due to an associate		394	8
Convertible preferred shares	15	260,474	—
Secured bank borrowing	13	237,703	236,805
Income tax payable		<u>109,483</u>	<u>137,648</u>
		<u>813,482</u>	<u>611,585</u>
Net current assets		<u>2,949,408</u>	<u>3,148,015</u>
Total assets less current liabilities		<u>4,537,896</u>	<u>4,618,802</u>
Non-current liabilities			
Other payables		—	1,283
Deferred tax liabilities		<u>117</u>	<u>116</u>
		<u>117</u>	<u>1,399</u>
Net assets		<u>4,537,779</u>	<u>4,617,403</u>
Capital and reserves			
Share capital		36,469	36,943
Share premium and reserves		<u>4,449,874</u>	<u>4,529,971</u>
Equity attributable to owners of the Company		4,486,343	4,566,914
Non-controlling interests		<u>51,436</u>	<u>50,489</u>
		<u>4,537,779</u>	<u>4,617,403</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2015

	Attributable to owners of the Company														
	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	37,664	1,036,480	4,139	—	10,045	202,885	79,977	673	(5,780)	29,777	(59,309)	3,278,591	4,615,142	7,736	4,622,878
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	—	79,662	79,662	(1,909)	77,753
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	553	—	553	—	553
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	553	79,662	80,215	(1,909)	78,306
Shares issued upon exercise of share options	1	101	—	—	—	—	—	—	—	(27)	—	—	75	—	75
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	2,919	—	—	2,919	—	2,919
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,445	(2,803)	—	1,358	—	—	—
Return of capital to non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	(3,990)	(3,990)
At 31 March 2014 (unaudited)	37,665	1,036,581	4,139	—	10,045	202,885	79,977	673	(4,335)	29,866	(58,756)	3,359,611	4,698,351	1,837	4,700,188
At 1 January 2015	36,943	930,286	5,223	38,755	10,045	253,699	78,865	673	(4,335)	31,872	(59,349)	3,244,237	4,566,914	50,489	4,617,403
Loss for the period	—	—	—	—	—	—	—	—	—	—	—	(10,914)	(10,914)	(2,151)	(13,065)
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	299	—	299	—	299
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	299	(10,914)	(10,615)	(2,151)	(12,766)
Repurchase and cancellation of shares	(486)	(70,095)	486	—	—	—	—	—	—	—	—	(486)	(70,581)	—	(70,581)
Shares issued upon exercise of share options	12	1,106	—	—	—	—	—	—	—	(371)	—	—	747	—	747
Reversal of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	(112)	—	—	(112)	—	(112)
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,082	(2,178)	—	1,096	—	—	—
Deemed disposal of associates	—	—	—	—	—	—	—	—	—	—	—	—	—	3,353	3,353
Return of capital to non-controlling interest of a subsidiary	—	—	—	—	(10)	—	—	—	—	—	—	—	(10)	10	—
Dividend paid to non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	(239)	(239)
Transfer upon deregistration of a subsidiary	—	—	—	—	—	(69)	—	—	—	—	—	69	—	(26)	(26)
At 31 March 2015 (unaudited)	36,469	861,297	5,709	38,755	10,035	253,630	78,865	673	(3,253)	29,211	(59,050)	3,234,002	4,486,343	51,436	4,537,779

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2015**

	Three months ended	
	31 March	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(35,101)</u>	<u>112,218</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(108,066)	(123,123)
Purchase of prepaid lease payments	(38,119)	(116)
Payment for deposits of property, plant and equipment	(2,030)	(48,307)
Placement of bank deposits	(533,635)	(1,947,950)
Withdrawal of bank deposits	1,569,401	2,032,400
Other investing cash flows	<u>59,674</u>	<u>27,088</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>947,225</u>	<u>(60,008)</u>
FINANCING ACTIVITIES		
Proceeds from issue of convertible preferred shares	235,905	—
Payment for repurchase of shares	(70,581)	—
Other financing activities	<u>482</u>	<u>(4,774)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>165,806</u>	<u>(4,774)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,077,930	47,436
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,036,788	1,304,355
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(1,358)</u>	<u>(12,586)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>2,113,360</u>	<u>1,339,205</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2015

1. GENERAL

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 24 June 2008. Its ultimate controlling shareholders are Messrs. Liu Dejian, Liu Luyuan and Zheng Hui. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 2209, 22nd Floor, Shun Tak Centre, West Tower, 200 Connaught Road Central, Hong Kong.

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

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

2. BASIS OF PREPARATION

The amounts included in the condensed consolidated financial statements have been computed in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) applicable to interim periods. However, it does not contain sufficient information to constitute a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA.

3. PRINCIPAL ACCOUNTING POLICIES

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

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

Financial liabilities at FVTPL

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

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

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

Convertible preferred shares

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

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

In the current interim period, the Group has applied, for the first time, certain new and revised HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

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

4. REVENUE, OTHER INCOME AND GAINS

	Three months ended	
	31 March	
	2015	2014
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Revenue		
Online game revenue	224,330	209,086
Education	9,982	8,005
Mobile technology and mobile marketing	<u>11,904</u>	<u>—</u>
	<u>246,216</u>	<u>217,091</u>
Other income and gains		
Government grants (<i>Note</i>)	2,840	1,289
Interest income	17,900	21,536
Net foreign exchange gain	1,886	21,642
Game implementation income	3,564	2,340
Rental income, net of negligible outgoing expenses	208	124
Others	<u>146</u>	<u>417</u>
	<u>26,544</u>	<u>47,348</u>

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

5. SEGMENT INFORMATION

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

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

Three months ended 31 March 2015

	Online game (Unaudited) RMB'000	Education (Unaudited) RMB'000	Mobile technology and mobile marketing (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	<u>224,330</u>	<u>9,982</u>	<u>11,904</u>	<u>246,216</u>
Segment profit (loss)	<u>36,887</u>	<u>(17,687)</u>	<u>(3,266)</u>	15,934
Unallocated income and gains				19,823
Unallocated expenses				<u>(44,329)</u>
Loss before taxation				<u>(8,572)</u>

Three months ended 31 March 2014 (Restated)

	Online game (Unaudited) RMB'000	Education (Unaudited) RMB'000	Mobile technology and mobile marketing (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	<u>209,086</u>	<u>8,005</u>	<u>—</u>	<u>217,091</u>
Segment profit (loss)	<u>102,129</u>	<u>(1,886)</u>	<u>—</u>	100,243
Unallocated income and gains				39,557
Unallocated expenses				<u>(24,005)</u>
Profit before taxation				<u>115,795</u>

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

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

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

	31 March 2015	31 December 2014
	<i>(Unaudited)</i>	<i>and restated</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Online game	2,721,610	3,383,304
Education	1,004,825	673,972
Mobile technology and mobile marketing	<u>199,654</u>	<u>207,808</u>
Total segment assets	3,926,089	4,265,084
Unallocated	<u>1,425,289</u>	<u>965,303</u>
	<u>5,351,378</u>	<u>5,230,387</u>

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

6. TAXATION

	Three months ended	
	31 March	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
The tax charge comprises:		
Hong Kong Profits Tax	1,514	2,270
The PRC Enterprise Income Tax ("EIT")	2,937	35,730
Taxation in other jurisdiction	<u>42</u>	<u>42</u>
	<u>4,493</u>	<u>38,042</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months ended 31 March 2015 and 31 March 2014.

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

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

7. (LOSS) PROFIT FOR THE PERIOD

	Three months ended	
	31 March	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
(Loss) profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	1,351	1,898
Other staff costs		
Salaries and other benefits	129,114	69,923
Contributions to retirement benefits schemes	13,878	5,940
Share-based payments expense	652	5,171
	<u>144,995</u>	<u>82,932</u>
Amortisation of intangible assets	4,313	—
Release of prepaid lease payments (included in administrative expenses)	760	559
Depreciation of property, plant and equipment	<u>25,418</u>	<u>12,948</u>
Total depreciation and amortisation	<u>30,491</u>	<u>13,507</u>
Operating lease rentals in respect of:		
- rented premises	9,429	2,443
- computer equipment	14,182	8,356
Loss on disposal of property, plant and equipment	152	80
Loss of deemed disposal of associates	3,353	—
Net foreign exchange gain	<u>(1,886)</u>	<u>(17,479)</u>

8. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend during the three months ended 31 March 2015 (three months ended 31 March 2014: Nil).

9. (LOSS) EARNINGS PER SHARE

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

	Three months ended	
	31 March	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share:		
- (loss) profit for the period attributable to the owners of the Company	<u>(10,914)</u>	<u>79,662</u>
	Number of shares	
	Three months ended	
	31 March	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	'000	'000
Weighted average number of shares in issue during the period for the purpose of basic (loss) earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	493,509	507,524
Effect of dilutive potential shares from the Company's share option scheme	<u>1,806</u>	<u>2,795</u>
Number of shares for the purpose of calculating diluted (loss) earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>495,315</u>	<u>510,319</u>

10. PROPERTY, PLANT AND EQUIPMENT

During the three-month period ended 31 March 2015, the deposits of approximately RMB3,088,000 were transferred to property, plant and equipment (three-month period ended 31 March 2014: RMB10,310,000) and the Group spent approximately RMB108,066,000 (three-month period ended 31 March 2014: RMB123,123,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB12,512,000 (three-month period ended 31 March 2014: RMB21,062,000) in office and computer equipment and RMB91,397,000 (three-month period ended 31 March 2014: RMB106,589,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

11. PREPAID LEASE PAYMENTS

During the three-month period ended 31 March 2015, the deposits of approximately RMB24,639,000 (three-month period ended 31 March 2014: Nil) were transferred to prepaid lease payments and the Group spent approximately RMB38,119,000 (three-month period ended 31 March 2014: RMB116,000) for the acquisition of prepaid lease payments to expand its buildings located in Fuzhou. The Group is in the process of obtaining the land use right certificates.

12. TRADE RECEIVABLES

The Group allows a credit period ranging from 30 to 90 days to its agents/trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods/date of rendering of services which approximated the respective revenue recognition dates.

	31 March 2015	31 December 2014
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	34,514	31,946
31 - 60 days	14,510	7,147
61 - 90 days	12,521	7,117
Over 90 days	<u>10,898</u>	<u>4,862</u>
Total	<u><u>72,443</u></u>	<u><u>51,072</u></u>

13. PLEDGED BANK DEPOSIT/SECURED BANK BORROWING

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

14. TRADE AND OTHER PAYABLES

	31 March 2015	31 December 2014
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	8,286	8,638
Accrued staff costs	71,597	86,769
Receipt in advance	12,680	20,348
Other tax payables (<i>Note</i>)	5,714	5,714
Other payables and accruals	<u>81,580</u>	<u>87,745</u>
	<u>179,857</u>	<u>209,214</u>

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

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

	31 March 2015	31 December 2014
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	5,024	5,875
91 - 180 days	1,883	2,096
181 - 365 days	850	158
Over 365 days	<u>529</u>	<u>509</u>
	<u>8,286</u>	<u>8,638</u>

15. CONVERTIBLE PREFERRED SHARES

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

Conversion

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

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

Dividends

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

Liquidation

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

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

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

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

	Shown in the condensed consolidated financial statements as RMB'000
Opening balance	—
Issue of convertible preferred shares	<u>260,474</u>
At 31 March 2015	<u>260,474</u>

16. EVENTS AFTER THE REPORTING PERIOD

Issue of share options

On 11 May 2015, the Company granted a total of 251,000 share options to subscribe for up to 251,000 ordinary shares of USD0.01 each in the capital of the Company at an exercise price of HKD27.75 under its share option scheme to eligible participants. The closing price of the Company's share on grant date was HKD27.75.

Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Number of share options granted
11 May 2015	N/A	11 May 2015 - 10 May 2025	37,000
11 May 2015	11 May 2015 - 6 October 2015	7 October 2015 - 10 May 2025	21,400
11 May 2015	11 May 2015 - 6 October 2016	7 October 2016 - 10 May 2025	32,100
11 May 2015	11 May 2015 - 6 October 2017	7 October 2017 - 10 May 2025	42,800
11 May 2015	11 May 2015 - 6 October 2018	7 October 2018 - 10 May 2025	53,500
11 May 2015	11 May 2015 - 6 October 2019	7 October 2019 - 10 May 2025	<u>64,200</u>
			<u>251,000</u>

The directors of the Company are still assessing the financial impact of this transaction. Further details of the grant of share options are set out in the announcement of the Company dated 11 May 2015.

Acquisition of a subsidiary

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

OPERATION INFORMATION

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

	Three months ended				
	31 March 2015	31 December 2014	30 September 2014	30 June 2014	31 March 2014
PCU	703,000	642,000	382,000	471,000	472,000
ACU	309,000	301,000	225,000	239,000	239,000

Note: As at 31 March 2015, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online, Dungeon Keeper™ Online, Calibur of Spirit Online and other games.

The PCU for online games was approximately 703,000 for the three months ended 31 March 2015, representing an increase of approximately 9.5% from the three months ended 31 December 2014 and representing an increase of approximately 48.9% from the three months ended 31 March 2014.

We also recorded the ACU for online games of approximately 309,000 for the three months ended 31 March 2015, which represented an increase of approximately 2.7% from the three months ended 31 December 2014 and represented an increase of approximately 29.3% from the three months ended 31 March 2014.

**FINANCIAL PERFORMANCE HIGHLIGHTS
FOR THE THREE MONTHS ENDED 31 MARCH 2015**

The following table sets forth the comparative figures for the three months ended 31 March 2015 and 2014:

	Three months ended	
	31 March	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	246,216	217,091
Cost of revenue	<u>(39,023)</u>	<u>(21,084)</u>
Gross profit	207,193	196,007
Other income and gains	26,544	47,348
Selling and marketing expenses	(30,826)	(29,130)
Administrative expenses	(106,926)	(56,875)
Development costs	(87,889)	(40,954)
Other expenses	(5,556)	(1,893)
Share of losses of associates	<u>(3,545)</u>	<u>(88)</u>
Operating (loss) profit	(1,005)	114,415
Interest income on pledged bank deposit	1,590	841
Exchange loss on pledged bank deposit and secured bank borrowing	—	(4,163)
Net gain on derivative financial instrument	—	4,726
Gain on disposal of held-for-trading investment	1,401	—
Net (loss) gain on held-for-trading investments	(9,741)	1,093
Finance costs	<u>(817)</u>	<u>(1,117)</u>
(Loss) profit before taxation	(8,572)	115,795
Taxation	<u>(4,493)</u>	<u>(38,042)</u>
(Loss) profit for the period	<u>(13,065)</u>	<u>77,753</u>
(Loss) profit for the period attributable to:		
- Owners of the Company	(10,914)	79,662
- Non-controlling interests	<u>(2,151)</u>	<u>(1,909)</u>
	<u>(13,065)</u>	<u>77,753</u>

Revenue

Online game and other business revenue for the three months ended 31 March 2015 was approximately RMB246.2 million, representing an increase of approximately 13.4% as compared to approximately RMB217.1 million for the three months ended 31 March 2014.

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

	Three months ended 31 March			
	2015		2014	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
PRC	204,175	82.9	187,731	86.5
Other markets	<u>42,041</u>	<u>17.1</u>	<u>29,360</u>	<u>13.5</u>
	<u>246,216</u>	<u>100.0</u>	<u>217,091</u>	<u>100.0</u>

The Group's revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the three months ended 31 March 2015 was approximately RMB204.2 million, representing an increase of approximately 8.8% over the three months ended 31 March 2014.

The revenue derived from other markets for the three months ended 31 March 2015 was approximately RMB42.0 million, representing an increase of approximately 43.2% over the three months ended 31 March 2014.

First Quarter of 2015

Revenue

Revenue for the first quarter of 2015 was approximately RMB246.2 million, representing a decrease of approximately 13.0% from the fourth quarter of 2014 and an increase of approximately 13.4% over the same period in 2014.

Cost of revenue

Cost of revenue for the first quarter of 2015 was approximately RMB39.0 million, representing an increase of approximately 7.4% from the fourth quarter of 2014 and an increase of approximately 85.1% over the same period in 2014.

Other income and gains

Other income and gains of approximately RMB26.5 million were recorded for the first quarter of 2015, representing a decrease of approximately 18.2% from the fourth quarter of 2014 and a decrease of approximately 43.9% over the same period in 2014.

Selling and marketing expenses

Selling and marketing expenses for the first quarter of 2015 were approximately RMB30.8 million, representing a decrease of approximately 39.8% from the fourth quarter of 2014 and an increase of approximately 5.8% over the same period in 2014.

Administrative expenses

Administrative expenses for the first quarter of 2015 were approximately RMB106.9 million, representing a decrease of approximately 11.5% from the fourth quarter of 2014 and an increase of approximately 88.0% over the same period in 2014.

Development costs

Development costs for the first quarter of 2015 were approximately RMB87.9 million, representing a decrease of approximately 1.6% from the fourth quarter of 2014 and an increase of approximately 114.6% over the same period in 2014.

Other expenses

Other expenses for the first quarter of 2015 were approximately RMB5.6 million, representing a decrease of approximately 53.6% from the fourth quarter of 2014 and an increase of approximately 193.5% over the same period in 2014.

Net gain on derivative financial instrument

No net gain on derivative financial instrument for the first quarter of 2015 and the fourth quarter of 2014 was made, whereas, net gain on derivative financial instrument for the same period in 2014 was approximately RMB4.7 million.

Finance costs

Finance costs for the first quarter of 2015 were approximately RMB0.8 million, representing an increase of approximately 247.7% from the fourth quarter of 2014 and a decrease of approximately 26.9% over the same period in 2014.

(Loss) profit for the period

Loss for the first quarter of 2015 was approximately RMB13.1 million, representing a decrease of approximately 41.0% from the fourth quarter of 2014, whereas, profit for the same period of 2014 was approximately RMB77.8 million.

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

Loss for the period attributable to the owners of the Company for the first quarter of 2015 was approximately RMB10.9 million, representing a decrease of approximately 43.8% from the fourth quarter of 2014, whereas, profit attributable to the owners of the Company for the same period of 2014 was approximately RMB79.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2015 Compared to Fourth Quarter of 2014

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

	Three months ended	
	31 March	31 December
	2015	2014
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	246,216	282,880
Cost of revenue	<u>(39,023)</u>	<u>(36,342)</u>
Gross profit	207,193	246,538
Other income and gains	26,544	32,464
Selling and marketing expenses	(30,826)	(51,206)
Administrative expenses	(106,926)	(120,876)
Development costs	(87,889)	(89,278)
Other expenses	(5,556)	(11,977)
Share of losses of associates	<u>(3,545)</u>	<u>(1,715)</u>
Operating (loss) profit	(1,005)	3,950
Interest income on pledged bank deposit	1,590	475
Gain on disposal of held-for-trading investment	1,401	—
Net loss on held-for-trading investments	(9,741)	(16,905)
Finance costs	<u>(817)</u>	<u>(235)</u>
Loss before taxation	(8,572)	(12,715)
Taxation	<u>(4,493)</u>	<u>(9,442)</u>
Loss for the period	<u>(13,065)</u>	<u>(22,157)</u>
Loss for the period attributable to:		
- Owners of the Company	(10,914)	(19,406)
- Non-controlling interests	<u>(2,151)</u>	<u>(2,751)</u>
	<u>(13,065)</u>	<u>(22,157)</u>

FINANCIAL REVIEW

Revenue

Our online game and other business revenue for the three months ended 31 March 2015 was approximately RMB246.2 million, representing a decrease of approximately 13.0% as compared to approximately RMB282.9 million for the three months ended 31 December 2014.

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

	Three months ended			
	31 March 2015		31 December 2014	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
PRC	204,175	82.9	229,042	81.0
Other markets	<u>42,041</u>	<u>17.1</u>	<u>53,838</u>	<u>19.0</u>
	<u>246,216</u>	<u>100.0</u>	<u>282,880</u>	<u>100.0</u>

The revenue derived from the PRC for the three months ended 31 March 2015 was approximately RMB204.2 million, representing a decrease of approximately 10.9% as compared to approximately RMB229.0 million for the three months ended 31 December 2014. The decrease in revenue derived from the PRC was mainly due to the decrease in revenue from Eudemons Online.

The revenue derived from other markets for the three months ended 31 March 2015 was approximately RMB42.0 million, representing a decrease of approximately 21.9% as compared to approximately RMB53.9 million for the three months ended 31 December 2014. The decrease in revenue derived from other markets was mainly due to seasonality factor related to the revenue from mobile technology and mobile marketing business. Excluded revenue derived from mobile technology and mobile marketing business, the revenue from other markets for the three months ended 31 March 2015 increased by approximately 8.2% to approximately RMB31.3 million as compared with the three months ended 31 December 2014.

Cost of revenue

Cost of revenue for the three months ended 31 March 2015 was approximately RMB39.0 million, representing an increase of approximately 7.4% as compared to approximately RMB36.4 million for the three months ended 31 December 2014. The increase was mainly due to the increase in costs of mobile technology and mobile marketing business.

Gross profit

Our gross profit for the three months ended 31 March 2015 was approximately RMB207.2 million, representing a decrease of approximately 16.0% as compared to approximately RMB246.5 million for the three months ended 31 December 2014.

Gross profit margin for the three months ended 31 March 2015 was approximately 84.2%, which represented a decrease of approximately 3.0% as compared with the three months ended 31 December 2014.

Other income and gains

Other income and gains for the three months ended 31 March 2015 were approximately RMB26.5 million, representing a decrease of approximately 18.2% as compared with the three months ended 31 December 2014. The decrease in other income and gains was mainly due to offset of the (i) decrease in interest income; (ii) increase in exchange gain on foreign currencies; and (iii) decrease in government grants.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2015 were approximately RMB30.8 million, representing a decrease of approximately 39.8% as compared with the three months ended 31 December 2014. The decrease in selling and marketing expenses was mainly due to the decrease in advertising and promotion expenses.

Administrative expenses

Administrative expenses decreased by approximately 11.5% to approximately RMB106.9 million for the three months ended 31 March 2015 as compared with the three months ended 31 December 2014, which was mainly due to the decrease in staff costs.

Development costs

Development costs decreased by approximately 1.6% to approximately RMB87.9 million for the three months ended 31 March 2015 as compared with the three months ended 31 December 2014, which was mainly due to the decrease in staff costs.

Other expenses

Other expenses for the three months ended 31 March 2015 were approximately RMB5.6 million, representing a decrease of approximately 53.6% as compared with three months ended 31 December 2014. The decrease in other expenses was mainly due to offset of (i) loss on deemed disposal of associates incurred; and (ii) no allowances on trade receivables provided.

Finance costs

Finance costs increased by approximately 247.7% to approximately RMB0.8 million for the three months ended 31 March 2015 as compared with the three months ended 31 December 2014. The increase in finance costs was mainly due to the increase in days of the bank borrowing.

Taxation

Taxation for the three months ended 31 March 2015 was approximately RMB4.5 million, which dropped by approximately 52.4% as compared with the three months ended 31 December 2014. The decrease was due to decrease in taxable profit.

Loss for the period attributable to the owners of the Company

Loss for the period attributable to the owners of the Company for the three months ended 31 March 2015 was approximately RMB10.9 million, representing a decrease of approximately 43.8% as compared to approximately RMB19.4 million for the three months ended 31 December 2014.

First Quarter of 2015 Compared to First Quarter of 2014

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

	Three months ended	
	31 March	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
Revenue	246,216	217,091
Cost of revenue	<u>(39,023)</u>	<u>(21,084)</u>
Gross profit	207,193	196,007
Other income and gains	26,544	47,348
Selling and marketing expenses	(30,826)	(29,130)
Administrative expenses	(106,926)	(56,875)
Development costs	(87,889)	(40,954)
Other expenses	(5,556)	(1,893)
Share of losses of associates	<u>(3,545)</u>	<u>(88)</u>
Operating (loss) profit	(1,005)	114,415
Interest income on pledged bank deposit	1,590	841
Exchange loss on pledged bank deposit and secured bank borrowing	—	(4,163)
Net gain on derivative financial instrument	—	4,726
Gain on disposal of held-for-trading investment	1,401	—
Net (loss) gain on held-for-trading investments	(9,741)	1,093
Finance costs	<u>(817)</u>	<u>(1,117)</u>
(Loss) profit before taxation	(8,572)	115,795
Taxation	<u>(4,493)</u>	<u>(38,042)</u>
(Loss) profit for the period	<u>(13,065)</u>	<u>77,753</u>
(Loss) profit for the period attributable to:		
- Owners of the Company	(10,914)	79,662
- Non-controlling interests	<u>(2,151)</u>	<u>(1,909)</u>
	<u>(13,065)</u>	<u>77,753</u>

FINANCIAL REVIEW

Revenue

Our online game and other business revenue for the three months ended 31 March 2015 was approximately RMB246.2 million, representing an increase of approximately 13.4% as compared to approximately RMB217.1 million for the three months ended 31 March 2014.

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

	Three months ended 31 March		2014	
	2015	% of	2014	% of
	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>
PRC	204,175	82.9	187,731	86.5
Other markets	<u>42,041</u>	<u>17.1</u>	<u>29,360</u>	<u>13.5</u>
	<u>246,216</u>	<u>100.0</u>	<u>217,091</u>	<u>100.0</u>

The revenue derived from the PRC for the three months ended 31 March 2015 was approximately RMB204.2 million, representing an increase of approximately 8.8% as compared to approximately RMB187.7 million for the three months ended 31 March 2014. The increase in revenue derived from the PRC was mainly due to offset of the (i) decrease in revenue from Eudomons Online; and (ii) increase in revenue from Calibur of Spirit Online.

The revenue derived from other markets for the three months ended 31 March 2015 amounted to approximately RMB42.0 million, representing an increase of approximately 43.2% as compared to approximately RMB29.4 million for the three months ended 31 March 2014. The increase was mainly contributed from mobile technology and mobile marketing business.

Cost of revenue

Cost of revenue for the three months ended 31 March 2015 increased by approximately 85.1% to approximately RMB39.0 million as compared with that of approximately RMB21.1 million for the three months ended 31 March 2014. The increase was mainly due to the increase in (i) server leasing fee; (ii) depreciation of servers; and (iii) costs of mobile technology and mobile marketing business.

Gross profit

Our gross profit for the three months ended 31 March 2015 was approximately RMB207.2 million, representing an increase of approximately 5.7% as compared to approximately RMB196.0 million for the three months ended 31 March 2014.

Gross profit margin for the three months ended 31 March 2015 was approximately 84.2%, which represented a decrease of approximately 6.1% as compared with the three months ended 31 March 2014.

Other income and gains

Other income and gains for the three months ended 31 March 2015 were approximately RMB26.5 million, representing a decrease of approximately 43.9% as compared with the three months ended 31 March 2014. The decrease was mainly due to the decrease in interest income and exchange gain.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2015 increased by approximately 5.8% to approximately RMB30.8 million as compared with the three months ended 31 March 2014. The increase in selling and marketing expenses was mainly due to the increase in promotion expenses and staff costs.

Administrative expenses

Administrative expenses increased by approximately 88.0% to approximately RMB106.9 million for the three months ended 31 March 2015 as compared with the three months ended 31 March 2014. The increase in administrative expenses was mainly due to the increase in (i) staff costs; (ii) depreciation and amortisation; and (iii) consumables and office expenses.

Development costs

Development costs increased by approximately 114.6% to approximately RMB87.9 million for the three months ended 31 March 2015 as compared with the three months ended 31 March 2014. The increase in development costs was mainly caused by the increase in (i) staff costs; and (ii) costs of source code.

Other expenses

Other expenses for the three months ended 31 March 2015 were approximately RMB5.6 million, which represented an increase of approximately 193.5% as compared with the three months ended 31 March 2014. The increase was mainly caused by the increase in loss on deemed disposal of associates.

Net gain on derivative financial instrument

No net gain on derivative financial instrument for the three months ended 31 March 2015 was made, whereas, net gain on derivative financial instrument for the three months ended 31 March 2014 was approximately RMB4.7 million.

Finance costs

Finance costs decreased by approximately 26.9% to approximately RMB0.8 million for the three months ended 31 March 2015 as compared with the three months ended 31 March 2014, which was mainly due to the decrease in the interest rate of the bank borrowing.

Taxation

Taxation for the three months ended 31 March 2015 dropped by approximately 88.2% to approximately RMB4.5 million as compared with the three months ended 31 March 2014. The decrease was caused by the decrease in taxable profit.

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

Loss for the period attributable to the owners of the Company for the three months ended 31 March 2015 was approximately RMB10.9 million, whereas, profit attributable to the owners of the Company for the three months ended 31 March 2014 was approximately RMB79.7 million.

NON-GAAP FINANCIAL MEASURES

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

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

	Three months ended		
	31 March 2015	31 December 2014	31 March 2014
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Non-GAAP operating profit	7,362	13,540	121,146
Non-GAAP profit	2,869	4,098	83,104
Non-GAAP profit attributable to owners of the Company	5,020	6,849	85,013

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2015, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB3,316.5 million (31 December 2014: RMB3,273.2 million), out of which approximately RMB237.7 million (31 December 2014: RMB236.8 million) has been pledged to bank to secure bank borrowing. The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.05 (31 December 2014: 0.05). As at 31 March 2015, total bank borrowing of the Group amounted to approximately RMB237.7 million (31 December 2014: RMB236.8 million) was floating-rate loan.

As at 31 March 2015, the Group had net current assets of approximately RMB2,949.4 million as compared with approximately RMB3,148.0 million as at 31 December 2014.

STAFF INFORMATION

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

	At 31 March 2015	At 31 December 2014	At 31 March 2014
Research and development	2,061	1,850	1,246
Selling and marketing	677	743	497
Accounting, finance and general administration	640	706	542
Total	<u>3,378</u>	<u>3,299</u>	<u>2,285</u>

BUSINESS REVIEW AND OUTLOOK

Games Business

During the first quarter of 2015, a new game mode of Conquer Online (征服) was launched resulting in record high overseas revenue in March 2015. Conquer Online (征服) celebrated its anniversary in April 2015 with the launch of The Rhapsody of Ice and Fire: Taoist Ascending (道士翻身) which further consolidates the game's market share and includes class updates for both the Chinese and overseas versions of the game. War of Legions (王者之戰), the new expansion pack for the Group's flagship game Eudemons Online (魔域) officially began open-beta testing in May 2015. War of Legions (王者之戰) offers players a richer gaming experience by adding a new model of Troop of Legion (王者軍團戰) and new weapons. During the quarter, the Company also stepped up its effort during the quarter to rationalize the player mix and the monetization approach for Eudemons Online. The Company achieved the intended effect of promoting a sustainable and healthy gaming environment, which is expected to help the game continue its strong performance in the foreseeable future. Based on the current run-rate, the Company expects the game's revenue to return to normal levels in second quarter.

Calibur of Spirit (英魂之刃), the Group's first MOBA micro-client game, officially began open-beta testing on Tencent's platform in January 2015 and has since recorded significant player growth. A series of tournaments for the game have been organized since April 2015, the events such as the WCA online qualifying tournament and a hundred-school competition. Frequent events such as these are expected to further increase the game's exposure and further improve its operating metrics. In

addition, the Portuguese version of Calibur of Spirit (英魂之刃) began closed beta-testing in March 2015 and is scheduled to begin official open-beta testing during the second quarter of the year. With the game's popularity increasing, the Company will further develop the overseas version. 3D action war game Tiger Knight (虎豹騎) was among the games listed on Sina's "China Games Weight Rank" and was awarded "Top Online Game of the Year" and "New Game of the Year" in April 2015. The game vividly reproduces legendary army battle scenes with lifelike effects that have won praise from players. Tiger Knight (虎豹騎) is scheduled to begin alpha testing during the second half of the year with the launch of its Chinese version expected before the end of the year.

Eudemons Online Pocket Version* (魔域口袋版) has recorded strong growth in its operational metrics since open-beta testing began in January 2015 with monthly gross revenue exceeding RMB10 million in March 2015. A traditional Chinese version was released in Hong Kong and Taiwan in April 2015. The company continues to optimize and test its upcoming mobile games. Real-time strategy-based collectible mobile card game Waku & Maou* (暗黑戰魂) began its first round of closed-beta testing in January 2015. The iOS version was released in April 2015 where it ranked among the top 10 paid mobile games on App Store within two days. The game began all platform open-testing in April 2015 with official open-beta testing scheduled for the second half of the year. 2.5D martial arts mobile role-playing game Blade & Sword* (最江湖) began alpha testing for its Android version in April 2015 with plans to formally launch by the end of the year.

Online and Mobile Education

During the first quarter of 2015, the Group continues to build upon the momentum from 2014 as it continued to make strong progress in research and development, pedagogy integration, content partnership, sales channel build-out and Mergers & Acquisitions (M&A) for its online and mobile education business.

The Product

The Company continues to focus on the design and development of its education ecosystem during the quarter. The Company's product for go-to-market in K12 schools will be a total-solution that encompasses hardware (the 101 student tablet), software (including the flagship interactive classroom software that comes with pre-class and in-class modules), social network (an education-tailored instant messaging platform), as well as supplemental equipment such as projectors, smart-cloud-box and a power charging dolly. After multiple design iterations for the

* For identification purpose only

Company's 101 student tablet, the appearance, performance, speed and operating system has been improved and optimized as the Company gets ready to ramp up the production volume in second half of 2015. On the software front, the Company has developed a series of over 20 learning applications that serve different learning purposes and objectives. The Company's existing instant messaging platform has also gone through several stages of optimization to cater to the needs of students, parents and teachers. Last but not least, the Company is building a proprietary cloud platform on which the ecosystem will operate, to ensure best-in-class reliability, scalability and performance.

Pedagogy Integration

The Group continues to deepen its partnership with China's top education universities, creating synergies between their education resources and the Company's leading technology teams. These partnerships will ensure that the most effective pedagogy is being developed and integrated. On 18 March 2015, the Group's education subsidiary and Beijing Normal University announced the establishment of the Smart Learning Institute which will provide a unique platform to integrate the most advanced pedagogy with the Company's mobile internet expertise and technological know-how. The Group and Fujian Normal University also signed an agreement during the quarter to combine and integrate "flipped classroom" technologies and pedagogy.

Content Partnerships

The Group continues to build partnerships with domestic and foreign educational publishers by licensing and purchasing content. Specifically, the Company is focusing on licensing a wide array of contents including curriculum contents and supplementary contents in various formats. Our content strategy is to integrate our licensed contents with the proper pedagogy, breakdown such contents into modules that are relevant to users, and build a large educational content base to be delivered to users under different use case scenarios.

Go-to-Market

The Company's go-to-market strategy will be to most optimally combine the on-the-ground channel build-out and the online B2C model with the goal to become the market leader in active user base. The on-the-ground channel build-out will be important especially in entering into new geographical markets, whereas B2C marketing will be adopted to drive the scaling of users and monetization as personalized, targeted services are pushed to users on the cloud platform. As part of the channel build-out effort, the Company is partnering with regional and local distributors to

build a nationwide distribution network, and in addition, the Company has established an inhouse sales team to cover 6 regions and 17 provinces in China. The Company is also exploring expansion into international markets by M&A and joint venture partnerships.

M&A

The Group continues to actively explore M&A opportunities in the market with the goal to acquire business or technology components that are needed to enhance the product value proposition, fast track the product development, or improve go-to-market position. In June 2015, the Company signed a stock purchase agreement to, subject to certain closing conditions, acquire a 100% stake in ChiVox Co., Ltd., a leading intelligent voice and speech technology provider in China. This acquisition will enable the Group to integrate world class intelligent voice and language technologies into its education products and produce a unique value proposition in the area of voice assessment, voice recognition and language pedagogy. In addition, the Company is also in discussion to acquire an international education player for up to approximately USD130 million.

Fundraising

In February 2015, the Group's education subsidiary closed a Series A equity fundraising round of USD52.5 million led by globally renowned investors, at a valuation of USD477.5 million.

CONCLUSION

The Group further consolidated its market position in the gaming space and pushed forward with the development of its online education platform.

The Group's online games business continues to gain strong growth momentum with the launch of several new expansion packs. Revenue generated by the overseas edition of Conquer Online (征服) reached a record high in March 2015. The Company's flagship game Eudemons Online (魔域) and Way of the Five (開心) both launched new expansion packs that provide players with more exciting content. Calibur of Spirit (英魂之刃), the Company's first MOBA web micro-client game, officially began open-beta testing in January 2015 and has since recorded significant subscriber growth. With a series of professional tournaments scheduled, the exposure and operating metrics for the game are expected to further improve. With the game of Calibur of Spirit (英魂之刃) popularity increasing, the Company has introduced the Portuguese version for the game and will further develop the overseas version. 3D action war game Tiger Knight (虎豹騎) was among the games listed on Sina's "China Games Weight Rank" and was awarded "Top Online Game of the Year" and "New Game of the Year" in April 2015.

The Group continued to make progress in the incubation of its mobile games business during the quarter. Eudemons Online Pocket Version* (魔域口袋版) has recorded strong growth in its operational metrics since open-beta testing began in January 2015. Real-time strategy-based collectible mobile card game Waku & Maou (暗黑戰魂) began its first round of closed-beta testing in January 2015. Its iOS version was released in April 2015 where it ranked among the top 10 paid mobile games on App Store within two days. 2.5D martial arts-style role-playing mobile game Blade & Sword* (最江湖) began alpha testing for its Android version in April 2015 which it plans to formally launch before the end of the year.

The Group remains squarely focused on the development of our online education business and has made significant progress in the design and development of its complementary hardware and software products during the quarter as preparation for their launch. As the Group embark on the journey to enable life-time learning by integrating technology with education, the near-term focus has been on designing products to tackle the pain points of teachers and students in the K-12 space. By combining internet and mobile product design capabilities with deep understanding of education, the Group is confident that its products will provide a unique value proposition to users that will stand out amongst competing products.

Project in Haixi Animation Creativity City (the “Project”)

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

- I Phase I covers an area of 246.8 mu. It is used by the Group for research and development, exchange and quality control development. Currently, several main buildings have been constructed, including the Group’s office building and Pentagonal Building* (五角大樓), with a gross floor area of approximately 33,000 square meters. Operations are currently underway.

* For identification purpose only

- II Phase II covers an area of 296.5 mu. This is the core animation research center of the Group. After two years of construction, the main building of the Group's landmark building , Enterprise* (企業號), was officially put into operation on 18 May 2014. Other ancillary buildings are under construction within the area. Most office and ancillary buildings are undergoing interior decoration.
- III Phase III covers an area of approximately 600.1 mu of which 345 mu has been earmarked for online education industrial zone, 105 mu has been slated for commercial and residential use, 48.8 mu was designated for apartments for senior management. It is under construction and currently at the stage of template construction. The remaining 101.3 mu will be used for future mobile game business research and development purpose.

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

- IV The Group also places great emphasis on the development of education segment. It is planning to construct a new Changle campus for Fuzhou Software Technology Vocational College, which has a student enrolment of approximately 8,000 and occupies an area of 536.2 mu. Currently, the project has completed planning, design and land planning permission, and when put into use, the project will form an industry cluster effect together with the three projects in the park by the way of “learning supported by production, research facilitated by production, learning combined with production” to boost the emergence and development of Haixi animation creation industry.

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

* *For identification purpose only*

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

As at 31 March 2015, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Beneficial owner and through a controlled corporation	253,982,257(L)	51.47%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of a trust	255,510,057 (L)	51.78%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	253,982,257 (L)	51.47%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Chen Hongzhan (Note 4)	The Company	Beneficial owner and beneficiary of a trust	13,090,019(L)	2.65%

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
Chao Guowei, Charles <i>(Note 5)</i>	The Company	Beneficial owner	818,000(L)	0.17%
Lee Kwan Hung <i>(Note 6)</i>	The Company	Beneficial owner	1,306,019(L)	0.26%
Liu Sai Keung, Thomas <i>(Note 7)</i>	The Company	Beneficial owner	1,085,019(L)	0.22%

Notes:

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.36% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 38.72% of the issued voting shares of the Company.

Liu Luyuan is interested in 5.34% of the issued voting shares of the Company which is represented by interest held as a beneficiary of a trust of 26,344,800 shares.

197,019 shares were held by each of Liu Dejian and Liu Luyuan as beneficiary interest of a trust.

Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.72% and 3.85%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.82% of the issued voting shares of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 50.73% 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, Fitter Property Inc. and Eagle World International Inc..

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“NetDragon (Fujian)”). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian).
4. Chen Hongzhan is interested in 2.65% of the issued voting shares of the Company which is represented by personal interest of 1,627,800 shares, interest held as a beneficiary of a trust of 11,306,019 shares and the rest being underlying shares of interest of 156,200 share options granted by the Company.
5. Chao Guowei, Charles is interested in 0.17% of the issued voting shares of the Company which is represented by the underlying shares of interest of 818,000 shares options granted by the Company.
6. Lee Kwan Hung is interested in 0.26% of the issued voting shares of the Company which is represented by beneficial interest of 588,019 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.
7. Liu Sai Keung, Thomas is interested in 0.22% of the issued voting shares of the Company which is represented by beneficial interest of 267,019 shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 March 2015, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 31 March 2015, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100(L)	38.72%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320(L)	15.87%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320(L)	15.87%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095(L)	14.89%
First Elite Group Limited <i>(Note 3)</i>	The Company	Beneficial owner and through controlled corporation	26,463,011(L)	5.36%
Jardine PTC Limited <i>(Note 3)</i>	The Company	Trustee	26,463,011(L)	5.36%

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 2.21%, 10.53%, 2.15% and 0.98% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. First Elite Group Limited is controlled by Jardine PTC Limited, which held on trust for Richmedia Holdings Limited.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 March 2015.

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the “Main Board Share Option Scheme”) to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 31 March 2015 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at 1 January 2015	Number of share options			As at 31 March 2015
				Granted	Exercised	Lapsed	
Executive Directors							
Liu Dejian	22.07.2011	4.60	156,200	—	—	—	156,200
Liu Luyuan	07.12.2009	4.33	1,400,000	—	—	—	1,400,000
	22.07.2011	4.60	284,000	—	—	—	284,000
Zheng Hui	22.07.2011	4.60	156,200	—	—	—	156,200
Chen Hongzhan	22.07.2011	4.60	156,200	—	—	—	156,200
Independent non-executive Directors							
Chao Guowei, Charles	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
Lee Kwan Hung	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	200,000	—	—	—	200,000
	04.12.2013	15.72	318,000	—	—	—	318,000
Liu Sai Keung, Thomas	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
Others							
Employees	07.12.2009	4.33	80,000	—	80,000	—	0
	28.04.2011	4.80	5,562,594	—	79,922	99,000	5,383,672
	22.07.2011	4.60	277,238	—	22,500	—	254,738
	23.04.2012	5.74	1,171,217	—	10,575	21,325	1,139,317
	06.07.2012	6.53	473,238	—	—	—	473,238
	12.09.2012	7.20	53,250	—	—	—	53,250
	16.01.2013	11.164	575,350	—	4,350	—	571,000
	25.04.2014	14.66	556,000	—	—	—	556,000
Total			<u>13,255,487</u>	<u>—</u>	<u>197,347</u>	<u>120,325</u>	<u>12,937,815</u>

Note:

1. During the period under review, no share options were exercised by Directors of the Company.

SHARE AWARD SCHEME

The Company

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

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

On 31 March 2015, 475,451 awarded shares granted to a number of selected participants were outstanding. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

Among 237,725 vested awarded shares in 2015, a total of 118,212 awarded shares were vested by the Directors.

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

Best Assistant Education Online Limited (“Best Assistant”)

On 7 August 2012, Best Assistant adopted a share award scheme (the “Best Assistant Share Award Scheme”) in which selected participants of Best Assistant and/or its subsidiaries are entitled to participate. Subject to early termination by the board of directors of Best Assistant, the Best Assistant Share Award Scheme shall be valid and effective for a term of ten years commencing on 7 August 2012. 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.

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

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

As at 31 March 2015, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into the Series A Agreement with the Series A Investors for the allotment and issue of an aggregate of 180,914,513 Series A Preferred Shares for a total consideration of US\$52,500,000 (equivalent to approximately HK\$409.5 million). The Series A Preferred Shares, when allotted and issued, will represent 100% of all issued preferred shares of Best Assistant and account for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares. The obligations of the Series A Investors to purchase the Series A Preferred Shares at the Closing is subject to the fulfillment on or before the Closing of certain conditions, unless waived in writing by the Series A Investors at the Closing, among other things, that Best Assistant shall and the Covenantors shall cause Best Assistant to effect an amendment of the Best Assistant Share Award Scheme to include the affirmative vote of at least one of the Investor Directors in all consents required from the Board.

On 10 February 2015, Fujian Tianquan Education Technology Limited (“Fujian Tianquan”) , Fujian Huayu Education Technology Limited (“Fujian Huayu”) and Fujian NetDragon Websoft Co., Ltd. (“NetDragon (Fujian)”) have entered into the Control Documents. Pursuant to the Specific Waiver granted by the Stock Exchange to the Company at around the time of Listing, the framework of the ND Structure Contracts may be cloned in relation to any existing or new wholly foreign owned

enterprise, operating company or FITE (as defined below) that the Company might wish to establish, without obtaining the approval of the Shareholders on terms that the protections for the Shareholders described in the Specific Waiver will apply.

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

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

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

The closing has taken place on 13 February 2015 in accordance with the terms of the Series A Agreement. On 13 February 2015, Best Assistant has issued an aggregate of 180,914,513 Series A Preferred Shares to the Series A Investors.

Further details of the issue of Series A Preferred Shares are set out in the announcements of the Company dated 6 January 2015, 10 February 2015 and 13 February 2015.

As such, the Company's beneficial shareholding in Best Assistant will be reduced from 86.15% to approximately 77.96%, assuming all of the Series A Preferred Shares are fully converted.

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 of 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 of the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the three months ended 31 March 2015.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's unaudited consolidated financial statements for the period ended 31 March 2015 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2015, the Company bought back a total of 1,870,000 shares on the Stock Exchange at an aggregate consideration of HKD25,323,860 before expenses.

Details of the shares buy-backs are as follows:

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

By Order of the Board
NetDragon Websoft Inc.
Liu Dejian
Chairman

Hong Kong, 11 June 2015

As at the date of this announcement, the Board comprises four executive Directors, namely Liu Dejian, Liu Luyuan, Zheng Hui and Chen Hongzhan; one non-executive Director, namely Lin Dongliang; and three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.