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**NetDragon Websoft Holdings Limited**

**網龍網絡控股有限公司**

*(formerly known as “NetDragon Websoft Inc. 網龍網絡有限公司”)*

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Holdings Limited (the “Company”) announced the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016. The interim results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, 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 announced the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2016 together with the comparative figures in 2015 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Six months ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
	NOTES		
Revenue	4	1,358,544	512,225
Cost of revenue		<u>(574,673)</u>	<u>(81,971)</u>
Gross profit		783,871	430,254
Other income and gains	4	78,762	56,533
Selling and marketing expenses		(256,991)	(70,133)
Administrative expenses		(353,725)	(225,098)
Development costs		(347,162)	(184,031)
Other expenses and losses		(23,418)	(8,742)
Share of losses of associates		<u>(530)</u>	<u>(5,312)</u>
Operating loss		(119,193)	(6,529)
Interest income on pledged bank deposit		—	3,190
Exchange (loss) gain on pledged bank deposit, secured bank borrowings and convertible preferred shares		(4,149)	646
Gain on derivative financial instrument		95,841	—
Gain on disposal of held-for-trading investment		—	1,401
Net gain (loss) on held-for-trading investments		1,010	(10,732)
Finance costs		<u>(4,768)</u>	<u>(1,640)</u>
Loss before taxation		(31,259)	(13,664)
Taxation	6	<u>(12,974)</u>	<u>(11,994)</u>
Loss for the period	7	<u>(44,233)</u>	<u>(25,658)</u>
Other comprehensive expense for the period, net of income tax:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(45,250)	(129)
Fair value loss on available-for-sale investment		<u>(3,448)</u>	<u>—</u>
Other comprehensive expense for the period		<u>(48,698)</u>	<u>(129)</u>
Total comprehensive expense for the period		<u>(92,931)</u>	<u>(25,787)</u>

		<b>Six months ended</b>	
		<b>30 June</b>	
		<b>2016</b>	2015
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the period attributable to:			
- Owners of the Company		<b>(42,894)</b>	(18,374)
- Non-controlling interests		<u><b>(1,339)</b></u>	<u>(7,284)</u>
		<u><b>(44,233)</b></u>	<u>(25,658)</u>
 Total comprehensive expense attributable to:			
- Owners of the Company		<b>(85,004)</b>	(18,503)
- Non-controlling interests		<u><b>(7,927)</b></u>	<u>(7,284)</u>
		<u><b>(92,931)</b></u>	<u>(25,787)</u>
		<i>RMB cents</i>	<i>RMB cents</i>
<b>Loss per share</b>	9		
- Basic		<b>(8.68)</b>	(3.72)
- Diluted		<u><b>(8.68)</b></u>	<u>(3.72)</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2016**

		<b>30 June 2016</b>	31 December 2015
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>1,303,082</b>	1,246,117
Prepaid lease payments	11	<b>545,499</b>	438,677
Investment properties		<b>54,186</b>	55,377
Intangible assets		<b>867,766</b>	953,950
Interests in associates		<b>17,115</b>	18,883
Available-for-sale investments		<b>25,737</b>	5,000
Loan receivables		<b>26,227</b>	23,081
Trade receivables	12	<b>15,157</b>	18,112
Deposits made for acquisition of property, plant and equipment		<b>15,554</b>	18,302
Goodwill		<b>368,582</b>	334,839
Deferred tax assets		<b>3,199</b>	3,611
		<b><u>3,242,104</u></b>	<b><u>3,115,949</u></b>
<b>Current assets</b>			
Inventories		<b>143,836</b>	117,584
Prepaid lease payments	11	<b>6,789</b>	2,733
Loan receivables		<b>8,084</b>	3,397
Trade receivables	12	<b>457,150</b>	234,733
Amounts due from customers for contract work		<b>4,355</b>	4,339
Other receivables, prepayments and deposits		<b>131,454</b>	115,918
Amount due from a related company		<b>1,704</b>	1,704
Amounts due from associates		<b>1,847</b>	11,204
Tax recoverable		<b>3,013</b>	11,159
Held-for-trading investment		<b>171,650</b>	170,640
Bank deposits		<b>190,654</b>	583,091
Bank balances and cash		<b>843,919</b>	1,126,957
		<b><u>1,964,455</u></b>	<b><u>2,383,459</u></b>
Assets classified as held for sale		<b><u>—</u></b>	<b><u>2,690</u></b>
		<b><u>1,964,455</u></b>	<b><u>2,386,149</u></b>

		<b>30 June 2016</b>	31 December 2015
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current liabilities</b>			
Trade and other payables	13	<b>468,604</b>	507,592
Amounts due to customers for contract work		<b>1,617</b>	993
Provisions		<b>30,543</b>	29,373
Deferred income		<b>84,467</b>	85,039
Amount due to a related company		<b>3,349</b>	2,254
Amounts due to associates		<b>2,147</b>	9,632
Convertible preferred shares	14	<b>188,504</b>	278,499
Secured bank borrowings	15	<b>121,293</b>	25,142
Income tax payable		<b>30,174</b>	95,194
		<b><u>930,698</u></b>	<u>1,033,718</u>
<b>Net current assets</b>		<b><u>1,033,757</u></b>	<u>1,352,431</u>
<b>Total assets less current liabilities</b>		<b><u>4,275,861</u></b>	<u>4,468,380</u>
<b>Non-current liabilities</b>			
Other payables		<b>8,922</b>	12,723
Provisions		<b>1,799</b>	2,027
Deferred tax liabilities		<b>135,282</b>	149,993
		<b><u>146,003</u></b>	<u>164,743</u>
<b>Net assets</b>		<b><u>4,129,858</u></b>	<u>4,303,637</u>
<b>Capital and reserves</b>			
Share capital		<b>36,607</b>	36,726
Share premium and reserves		<b>4,084,155</b>	4,257,120
Equity attributable to owners of the Company		<b>4,120,762</b>	4,293,846
Non-controlling interests		<b>9,096</b>	9,791
		<b><u>4,129,858</u></b>	<u>4,303,637</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Attributable to owners of the Company															
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Dividend reserve RMB'000	Revaluation reserve RMB'000	Treasury share reserve RMB'000	Employee share-based compensation reserve RMB'000	Translation reserve RMB'000	Available-for-sale investment reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	36,943	930,286	5,223	38,755	10,045	253,699	78,865	673	(4,335)	31,872	(59,349)	—	3,244,237	4,566,914	50,489	4,617,403
Loss for the period	—	—	—	—	—	—	—	—	—	—	—	—	(18,374)	(18,374)	(7,284)	(25,658)
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(129)	—	—	(129)	—	(129)
Total comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(129)	—	(18,374)	(18,503)	(7,284)	(25,787)
Repurchase and cancellation of shares	(486)	(70,095)	486	—	—	—	—	—	—	—	—	—	(486)	(70,581)	—	(70,581)
Shares issued upon exercise of share options	230	22,364	—	—	—	—	—	—	—	(6,833)	—	—	—	15,761	—	15,761
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	2,035	—	—	—	2,035	—	2,035
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,082	(2,178)	—	—	1,096	—	—	—
Adjustment arising from transfer of associates to a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3,353	3,353
Dividend paid to non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(239)	(239)
Acquisition of additional equity interests from non-controlling interests	—	—	—	(115)	—	—	—	—	—	—	—	—	—	(115)	(113)	(228)
Transfer upon deregistration of a subsidiary	—	—	—	—	(10)	(69)	—	—	—	—	—	—	69	(10)	(16)	(26)
Final dividend for 2014 paid	—	—	—	—	—	—	(78,865)	—	—	—	—	—	480	(78,385)	—	(78,385)
Interim dividend for 2015	—	—	—	—	—	—	39,197	—	—	—	—	—	(39,197)	—	—	—
At 30 June 2015 (unaudited)	36,687	882,555	5,709	38,640	10,035	253,630	39,197	673	(3,253)	24,896	(59,478)	—	3,187,825	4,417,116	46,190	4,463,306
At 1 January 2016	36,726	887,340	5,709	39,464	10,035	260,714	49,767	22,449	(3,253)	26,593	(48,018)	—	3,006,320	4,293,846	9,791	4,303,637
Loss for the period	—	—	—	—	—	—	—	—	—	—	—	—	(42,894)	(42,894)	(1,339)	(44,233)
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(38,662)	(3,448)	—	(42,110)	(6,588)	(48,698)
Total comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(38,662)	(3,448)	(42,894)	(85,004)	(7,927)	(92,931)
Repurchase and cancellation of shares	(357)	(78,585)	357	—	—	—	—	—	—	—	—	—	(357)	(78,942)	—	(78,942)
Shares issued upon exercise of share options	167	14,999	—	—	—	—	—	—	—	(4,437)	—	—	—	10,729	—	10,729
Shares issued upon acquisition of subsidiaries	71	20,805	—	—	—	—	—	—	—	—	—	—	—	20,876	—	20,876
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	2,276	—	—	—	2,276	—	2,276
Awarded shares vested to employees	—	—	—	—	—	—	—	—	993	(2,898)	—	—	1,905	—	—	—
Deemed disposal of subsidiaries to a non-controlling shareholder	—	—	—	(543)	—	—	—	—	—	—	—	—	—	(543)	7,585	7,042
Acquisition of additional equity interests from non-controlling interests	—	—	—	(887)	—	—	—	—	—	—	—	—	—	(887)	(99)	(986)
Acquisition of a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	861	861
Dividend paid to non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,115)	(1,115)
Final dividend for 2015 paid	—	—	—	—	—	—	(49,767)	—	—	—	—	—	8,178	(41,589)	—	(41,589)
Interim dividend for 2016	—	—	—	—	—	—	42,433	—	—	—	—	—	(42,433)	—	—	—
At 30 June 2016 (unaudited)	36,607	844,559	6,066	38,034	10,035	260,714	42,433	22,449	(2,260)	21,534	(86,680)	(3,448)	2,930,719	4,120,762	9,096	4,129,858

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>(395,450)</u></b>	<b><u>(31,187)</u></b>
<b>INVESTING ACTIVITIES</b>		
Placement of bank deposits	(552,361)	(1,304,752)
Purchase of property, plant and equipment	(125,666)	(311,382)
Purchase of prepaid lease payments	(113,915)	(38,158)
Purchase of available-for-sale investment	(24,185)	—
Purchase of intangible assets	(15,445)	(5,640)
Acquisitions of subsidiaries	(9,579)	—
Deposits paid for acquisition of property, plant and equipment	(2,313)	(3,791)
Withdrawal of bank deposits	946,976	1,840,151
Proceeds from disposal of subsidiaries	—	61,396
Other investing activities	<u>19,530</u>	<u>72,608</u>
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b><u>123,042</u></b>	<b><u>310,432</u></b>
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	844,581	—
Repayment of bank borrowings	(747,706)	—
Payment for repurchase of shares	(78,942)	(70,581)
Dividends paid	(41,589)	(78,385)
Proceeds from shares issued upon exercise of share options	10,729	15,761
Proceeds from issue of convertible preferred shares	—	260,359
Other financing activities	<u>(1,168)</u>	<u>(265)</u>
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b><u>(14,095)</u></b>	<b><u>126,889</u></b>

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(286,503)</b>	406,134
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>1,126,957</b>	1,036,788
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u><b>3,465</b></u>	<u>(101)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<u><b>843,919</b></u>	<u><b>1,442,821</b></u>



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

**1. GENERAL**

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate controlling shareholders are Messrs. Liu Dejian, Liu Luyuan and Zheng Hui. The 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.

Pursuant to the special resolution passed by the shareholders at the annual general meeting held on 19 May 2016, the name of the Company was changed from NetDragon Websoft Inc. to NetDragon Websoft Holdings Limited.

The Company is an investment holding company. The principal activities of the Group are engaged in (i) online games development, including games design, programming and graphics and online 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 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

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

#### 4. REVENUE, OTHER INCOME AND GAINS

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>		
Online game revenue	<b>580,764</b>	463,221
Education revenue	<b>760,049</b>	23,449
Mobile solution, products and marketing revenue	<b><u>17,731</u></b>	<u>25,555</u>
	<b><u>1,358,544</u></b>	<u>512,225</u>
<b>Other income and gains</b>		
Government grants ( <i>Note</i> )	<b>50,367</b>	10,845
Interest income	<b>12,519</b>	37,962
Net foreign exchange gain	<b>6,734</b>	—
Game implementation income	<b>3,450</b>	6,933
Gain on disposal of assets classified as held for sale	<b>1,601</b>	—
Rental income, net of negligible outgoing expenses	<b>2,991</b>	453
Server rental income	<b>655</b>	215
Others	<b><u>445</u></b>	<u>125</u>
	<b><u>78,762</u></b>	<u>56,533</u>

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

## 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 segments:

### Six months ended 30 June 2016

	<b>Online game (Unaudited) RMB’000</b>	<b>Education (Unaudited) RMB’000</b>	<b>Mobile solution, products and marketing (Unaudited) RMB’000</b>	<b>Total (Unaudited) RMB’000</b>
Segment revenue	<u>580,764</u>	<u>760,049</u>	<u>17,731</u>	<u>1,358,544</u>
Segment profit (loss)	<u>73,984</u>	<u>44,756</u>	<u>(13,084)</u>	105,656
Unallocated income and gains				14,986
Unallocated expenses and losses				(152,911)
Net gain on held-for-trading investment				<u>1,010</u>
Loss before taxation				<u>(31,259)</u>

### Six months ended 30 June 2015

	<b>Online game (Unaudited) RMB’000</b>	<b>Education (Unaudited) RMB’000</b>	<b>Mobile solution and marketing (Unaudited) RMB’000</b>	<b>Total (Unaudited) RMB’000</b>
Segment revenue	<u>463,221</u>	<u>23,449</u>	<u>25,555</u>	<u>512,225</u>
Segment profit (loss)	<u>116,987</u>	<u>(57,059)</u>	<u>(6,905)</u>	53,023
Unallocated income and gains				39,941
Unallocated expenses and losses				(95,896)
Net loss on held-for-trading investments				<u>(10,732)</u>
Loss before taxation				<u>(13,664)</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 share-based payments expense, net gain (loss) on held-for-trading investments, gain on disposal of held-for-trading investment, income tax expenses, and unallocated income, gains, expenses and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	<b>30 June 2016</b> <i>(Unaudited)</i> <i>RMB'000</i>	31 December 2015 <i>(Audited)</i> <i>RMB'000</i>
Online game	<b>2,257,953</b>	2,699,063
Education	<b>2,178,866</b>	1,841,183
Mobile solution, products and marketing	<b><u>188,282</u></b>	<u>165,992</u>
Total segment assets	<b>4,625,101</b>	4,706,238
Unallocated	<b><u>581,458</u></b>	<u>795,860</u>
	<b><u><u>5,206,559</u></u></b>	<u><u>5,502,098</u></u>

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as available-for-sale investments, held-for-trading investment, 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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
The tax charge comprises:		
Hong Kong Profits Tax	<b>2,644</b>	2,939
The PRC Enterprise Income Tax ("EIT")	<b>16,210</b>	8,972
Taxation in other jurisdiction	<b>394</b>	83
Deferred tax	<u><b>(6,274)</b></u>	<u>—</u>
	<u><b>12,974</b></u>	<u>11,994</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2016 and 30 June 2015.

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

United Kingdom corporation tax rate applicable to subsidiaries is 20% for the six months ended 30 June 2016.

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

## 7. LOSS FOR THE PERIOD

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	<b>6,468</b>	2,747
Other staff costs		
Salaries and other benefits	<b>558,343</b>	262,664
Contributions to retirement benefits schemes	<b>48,002</b>	28,586
Share-based payments expense	<u>(277)</u>	<u>3,581</u>
	<b><u>612,536</u></b>	<u>297,578</u>
Amortisation of intangible assets	<b>63,800</b>	9,125
Release of prepaid lease payments (included in administrative expenses)	<b>3,037</b>	1,445
Depreciation of property, plant and equipment	<u><b>71,412</b></u>	<u>52,216</u>
Total depreciation and amortisation	<u><b>138,249</b></u>	<u>62,786</u>
Cost of goods sold for education equipment	<b>480,480</b>	349
Operating lease rentals in respect of:		
- rented premises	<b>31,204</b>	20,883
- computer equipment	<b>23,171</b>	28,788
Gross rental income from investment properties	<b>827</b>	—
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	<u>—</u>	<u>—</u>
	<b><u>827</u></b>	<u>—</u>
Loss on disposal of property, plant and equipment	<b>1,012</b>	309
Adjustment arising from transfer of associates to a non-wholly owned subsidiary	—	3,353
Fair value change of remeasurement of previously held equity interest in an associate upon acquisition	<b>1,075</b>	—
Change in fair value of investment properties	<b>2,273</b>	—
Net foreign exchange (gain) loss	<u><b>(2,585)</b></u>	<u>3,963</u>

## 8. DIVIDENDS

On 15 June 2016, a dividend of Hong Kong dollars (“HKD”) 0.10 per share (2015: HKD0.20 per share) was paid to shareholders as the final dividend for 2015. The aggregate amount of the final dividend paid in current interim period amounted to approximately RMB41,589,000 (2015: RMB78,385,000).

The directors of the Company have determined that an interim dividend of HKD0.10 per share (2015: HKD0.10 per share), amounting to approximately HKD49,648,000 (equivalent to approximately RMB42,433,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 15 September 2016.

## 9. LOSS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
Loss for the purpose of basic and diluted loss per share:		
- loss for the period attributable to the owners of the Company	<u><b>(42,894)</b></u>	<u><b>(18,374)</b></u>
	<b>Number of shares Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>'000</b>	<b>'000</b>
Weighted average number of shares in issue during the period for the purpose of basic loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<b>494,194</b>	494,167
Effect of dilutive potential shares from the Company's share option scheme ( <i>Note</i> )	<u>—</u>	<u>—</u>
Number of shares for the purpose of calculating diluted loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u><b>494,194</b></u>	<u><b>494,167</b></u>

*Note:* The calculation of diluted loss per share for the six months ended 30 June 2016 and 2015 does not assume the exercise of the Company's outstanding share options as the exercise of the Company's share options would result in a decrease in loss per share.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the deposits of approximately RMB5,061,000 were transferred to property, plant and equipment (six months ended 30 June 2015: RMB3,676,000) and the Group spent approximately RMB125,666,000 (six months ended 30 June 2015: RMB311,382,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB51,241,000 (six months ended 30 June 2015: RMB29,811,000) in plant and equipment and RMB62,540,000 (six months ended 30 June 2015: RMB259,175,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

## 11. PREPAID LEASE PAYMENTS

During the six months ended 30 June 2016, the Group spent approximately RMB113,915,000 (six months ended 30 June 2015: RMB38,158,000) 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. During the six months ended 30 June 2015, the deposits of approximately RMB24,639,000 were transferred to prepaid lease payments.

## 12. TRADE RECEIVABLES

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

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

	<b>30 June 2016</b>	31 December 2015
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade debtors		
0 - 30 days	<b>328,590</b>	126,351
31 - 60 days	<b>82,471</b>	63,674
61 - 90 days	<b>9,998</b>	19,197
Over 90 days	<b>24,747</b>	13,681
Receivables with extended credit terms		
Due within one year	<b>11,344</b>	11,830
Due after one year	<b>15,157</b>	18,112
	<b><u>472,307</u></b>	<u>252,845</u>



### 13. TRADE AND OTHER PAYABLES

	<b>30 June 2016</b>	31 December 2015
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<b>197,584</b>	198,132
Accrued staff costs	<b>104,574</b>	133,786
Receipt in advance	<b>32,568</b>	30,442
Other tax payables ( <i>Note a</i> )	<b>14,930</b>	15,430
Other payables and accruals ( <i>Note b</i> )	<b><u>118,948</u></b>	<u>129,802</u>
	<b><u><u>468,604</u></u></b>	<u><u>507,592</u></u>

*Notes:*

- a. 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 United States dollars (“USD”)13.168 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. Included in other tax payables, an amount of approximately RMB0.8 million (2015: RMB0.8 million) of withholding PRC personal income tax calculated at the applicable tax rate and other surcharges was withheld by the Group.
- b. Other payables and accruals mainly represent construction payable, advertising payable, office and server rental payable and other miscellaneous items for operating and investing activities.

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

	<b>30 June 2016</b>	31 December 2015
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	<b>181,714</b>	137,998
91 - 180 days	<b>13,261</b>	57,186
181 - 365 days	<b>1,844</b>	2,297
Over 365 days	<b><u>765</u></b>	<u>651</u>
	<b><u><u>197,584</u></u></b>	<u><u>198,132</u></u>

## **14. CONVERTIBLE PREFERRED SHARES**

Best Assistant Education Online Limited, an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 13.59% of the issued share capital of the Company), Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, DJM Holding Ltd. (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 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 issue price of Series A convertible preferred shares, plus all declared but unpaid dividends.

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

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

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

	<b>30 June 2016</b> <i>(Unaudited)</i> <b>RMB'000</b>	31 December 2015 <i>(Audited)</i> <b>RMB'000</b>
At the beginning of the period	<b>278,499</b>	—
Issue of convertible preferred shares	—	260,474
Payment for repurchase of shares by the Group	<b>(53)</b>	—
Fair value change	<b>(95,841)</b>	2,521
Exchange realignment	<u><b>5,899</b></u>	<u>15,504</u>
At the end of the period	<u><b>188,504</b></u>	<u>278,499</u>

## 15. SECURED BANK BORROWINGS

The secured bank borrowings carry interest rate of 200 to 250 basis points over 30-day London Inter-Bank Offer Rate. The borrowings were secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 2016 Second Quarter Financial Highlights

- Revenue was RMB786.9 million: 37.7% increase quarter-over-quarter; and 195.8% increase year-over-year.
- Revenue from the games business was RMB296.7 million: 4.4% increase quarter-over-quarter; and 24.2% increase year-over-year.
- Revenue from the education business was RMB480.1 million: 71.5% increase quarter-over-quarter; and over 34 times increase year-over-year.
- Gross profit was RMB437.4 million: 26.3% increase quarter-over-quarter; and 96.1% increase year-over-year.
- Core segmental profit<sup>1</sup> from the games business was RMB99.4 million: 5.3% increase quarter-over-quarter; and 55.8% increase year-over-year.
- Core segmental loss<sup>1</sup> from the education business was RMB87.7 million: 34.3% decrease quarter-over-quarter; and 122.7% increase year-over-year.
- Non-GAAP<sup>2</sup> operating profit was RMB28.1 million as compared to non-GAAP operating loss of RMB111.8 million for the first quarter; such turnaround was mainly attributable to a combination of very strong performance of our international online education business as reflected in Promethean's positive operating profit during the quarter, as well as continuous profitability growth in the games business.
- Net profit attributable to owners of the Company was RMB70.7 million as compared to net loss attributable to owners of the Company of RMB113.6 million in the first quarter.

### 2016 First Half Financial Highlights

- Revenue was RMB1,358.5 million: 165.2% increase year-over-year.
- Revenue from the games business was RMB580.8 million: 25.4% increase year-over-year.
- Revenue from the education business was RMB760.0 million: 3,141.3% increase year-over-year.
- Gross profit was RMB783.9 million: 82.2% increase year-over-year.
- Core segmental profit<sup>1</sup> from the games business was RMB193.7 million: 82.5% increase year-over-year.
- Core segmental loss<sup>1</sup> from the education business was RMB221.1 million: 287.6% increase year-over-year.

## 2016 Second Quarter Gaming Operational Metrics

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*):

	30 June 2016	31 March 2016	Three months ended		
			31 December 2015	30 September 2015	30 June 2015
<b>PCU</b>	<b>776,000</b>	748,000	752,000	761,000	708,000
<b>ACU</b>	<b>347,000</b>	332,000	317,000	360,000	318,000

*Note:* As at 30 June 2016, our online games include Conquer Online, Eudemons Online, Calibur of Spirit, Zero Online, Way of the Five, Tou Ming Zhuang Online, Tian Yuan and other games.

- ACU for online games was approximately 347,000, a 4.5% increase quarter-over-quarter and 9.1% increase year-over-year.
- PCU for online games was approximately 776,000, a 3.7% increase quarter-over-quarter and 9.6% increase year-over-year.
- Monthly average revenue per user for online games was approximately RMB246, a 3.5% decrease quarter-over-quarter and 0.4% decrease year-over-year.

## Segmental Financial Highlights

(RMB'000)	FY2016 Q2		FY2016 Q1		FY2015 Q2	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	<b>296,697</b>	<b>480,107</b>	284,067	279,942	238,891	13,467
Gross profit	<b>279,736</b>	<b>155,803</b>	264,857	82,936	216,262	5,642
Gross margin	<b>94.3%</b>	<b>32.5%</b>	93.2%	29.6%	90.5%	41.9%
Core segmental profit (loss) <sup>1</sup>	<b>99,356</b>	<b>(87,695)</b>	94,314	(133,443)	63,755	(39,372)
Segmental operating expenses <sup>3</sup>						
- Research and development	<b>(82,060)</b>	<b>(91,390)</b>	(77,344)	(87,848)	(71,509)	(24,550)
- Selling and marketing	<b>(37,372)</b>	<b>(95,323)</b>	(33,520)	(87,837)	(35,000)	(3,817)
- Administrative	<b>(66,586)</b>	<b>(39,090)</b>	(60,464)	(38,952)	(49,786)	(14,010)

- Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with 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 derivative financial instrument. In order to conform to the current period's presentation, certain comparative figures for prior reporting period have been reclassified.
- Note 2: To supplement the consolidated results of the Group prepared in accordance with 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, amortisation of intangible assets arising on acquisition of subsidiaries and fair value change of remeasurement of previously held equity interest in an associate upon acquisition.
- 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.

The following table sets forth the comparative figures for the second quarter of 2016, the first quarter of 2016 and the second quarter of 2015:

	<b>Three months ended</b>		
	<b>30 June 2016 (Unaudited) RMB'000</b>	<b>31 March 2016 (Unaudited) RMB'000</b>	<b>30 June 2015 (Unaudited) RMB'000</b>
Revenue	<b>786,907</b>	571,637	266,009
Cost of revenue	<b><u>(349,481)</u></b>	<u>(225,192)</u>	<u>(42,948)</u>
Gross profit	<b>437,426</b>	346,445	223,061
Other income and gains	<b>63,151</b>	15,611	29,989
Selling and marketing expenses	<b>(134,777)</b>	(122,214)	(39,307)
Administrative expenses	<b>(162,141)</b>	(191,584)	(118,172)
Development costs	<b>(178,050)</b>	(169,112)	(96,142)
Other expenses and losses	<b>(16,646)</b>	(6,772)	(3,186)
Share of profit (losses) of associates	<b><u>213</u></b>	<u>(743)</u>	<u>(1,767)</u>
Operating profit (loss)	<b>9,176</b>	(128,369)	(5,524)
Interest income on pledged bank deposit	<b>—</b>	—	1,600
Exchange (loss) gain on pledged bank deposit, secured bank borrowings and convertible preferred shares	<b>(6,341)</b>	2,192	646
Gain on derivative financial instrument	<b>92,180</b>	3,661	—
Net gain (loss) on held-for-trading investments	<b>4,255</b>	(3,245)	(991)
Finance costs	<b><u>(2,031)</u></b>	<u>(2,737)</u>	<u>(823)</u>
Profit (loss) before taxation	<b>97,239</b>	(128,498)	(5,092)
Taxation	<b><u>(6,679)</u></b>	<u>(6,295)</u>	<u>(7,501)</u>
Profit (loss) for the period	<b><u>90,560</u></b>	<u>(134,793)</u>	<u>(12,593)</u>
Profit (loss) for the period attributable to:			
- Owners of the Company	<b>70,669</b>	(113,563)	(7,460)
- Non-controlling interests	<b><u>19,891</u></b>	<u>(21,230)</u>	<u>(5,133)</u>
	<b><u>90,560</u></b>	<u>(134,793)</u>	<u>(12,593)</u>

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2016, we had bank deposits and bank balances and cash of approximately RMB1,034.6 million (31 December 2015: RMB1,710.0 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.03 (31 December 2015: 0.01). As at 30 June 2016, total bank borrowings of the Group amounted to approximately RMB121.3 million (31 December 2015: RMB25.1 million) were floating-rate loans and were secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

As at 30 June 2016, the Group had net current assets of approximately RMB1,033.8 million as compared with approximately RMB1,352.4 million as at 31 December 2015.

## STAFF INFORMATION

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

	<b>At 30 June 2016</b>	At 31 March 2016	At 30 June 2015
Research and development	<b>3,135</b>	2,991	2,093
Selling and marketing	<b>1,169</b>	1,091	721
Accounting, finance and general administration	<b>931</b>	917	725
Production	<b>312</b>	173	—
Total	<b><u>5,547</u></b>	<u>5,172</u>	<u>3,539</u>



## BUSINESS REVIEW AND OUTLOOK

The Group is extremely delighted by the achievements in the second quarter of 2016 where the Company achieved a record-high quarterly revenue of RMB786.9 million fuelled by the dual growth engines in games and education businesses.

The online education business had an outstanding quarter as the Group experienced a remarkable 71.5% quarter-over-quarter growth and over 34 times increase year-over-year, which recorded a remarkable 71.1% increase in revenue quarter-over-quarter and 45.5% increase year-over-year on a pro forma basis, underpinned by the continuous market share gain in the worldwide market during the quarter. The success in gaining market share is a testament to the broad based acceptance of ClassFlow™, the game-changing cloud-based education software for the international markets.

The games business continued to register very strong momentum this quarter with 24.2% increase in revenue and 55.8% increase in core segmental profit year-over-year. Both Eudemons Online (魔域) and Eudemons online pocket version\* (魔域口袋版) registered record high monthly revenue or monthly prepaid income during the quarter. Meanwhile, the Group is getting ready to launch the new games in Calibur of Spirit (英魂之刃) mobile version and Tiger Knight (虎豹骑) in the second half of 2016. The Group also have a strong pipeline of new games coming up in 2017, which the Group believe will propel the games business to a whole new level.

Looking forward, the Group expects to continue the current momentum and reap the rewards from the broad investments the Group has made into the games and education businesses in terms of research and development efforts as well as mergers and acquisitions that have granted access to technologies and new markets.

### Games Business

The Company's games business continued its growth momentum in the second quarter of 2016, with revenue at RMB296.7 million, a 24.2% increase year-over-year. This solid performance was attributable to broad-based revenue growth of the major games. In particular, Eudemons Online (魔域) and Eudemons online pocket version\* (魔域口袋版) both registered record high monthly revenue or monthly prepaid income during the quarter. Another flagship game, Calibur of Spirit (英魂之刃), also continued to further player base, with DAU (daily active users) of 1.8 million in April 2016.

*\* For identification purpose only*

In addition, various operational indicators continued to improve with an increase of 9.6% year-over-year of PCU at approximately 776,000, an increase of 9.1% year-over-year of ACU at 347,000.

Looking into the second half of 2016, the Company is excited as the Group gets ready to launch the long-awaited Calibur of Spirit (英魂之刃) mobile game. The Group is confident to see substantial revenue contribution from Calibur of Spirit (英魂之刃) mobile game after its launch. In addition, the Company expects to start generating revenue from Tiger Knight (虎豹騎), the new 3D action strategy game, by the end of 2016.

Riding on the success of Eudemons Online (魔域), the Company plans to launch an App for mobile devices for Eudemons Online (魔域) during the second half of 2016, aiming to provide better protection to users' accounts and improved user experience, which will help the Group to further strengthen player retention. The Company will also be launching significant new game-play features and monetization schemes in Calibur of Spirit (英魂之刃) in next half year which the Group is confident will drive up monthly gross revenue for this game. Furthermore, the English version of Calibur of Spirit (英魂之刃) will be launched by the end of 2016, and other languages, including German, French and Russian will also become available subsequently.

To further the Company's growth of the games business over the mid- to long-run, the Group has a strong pipeline of new games for 2017, which will leverage the existing game IPs as well as the proprietary technologies and know-how in gaming. In particular, the Group expects the Virtual Reality (VR) and Augmented Reality (AR) technologies to play a major role in the upcoming launches of new games. In addition to a robust pipeline, the Group also expects to leverage the sporting nature of Calibur of Spirit (英魂之刃) and the immense popularity of this game to create an e-sports online community which will open up to further monetization opportunities in the future.

## **Education Business**

Revenue from the education business of the Company was RMB480.1 million for the second quarter of 2016, a 71.5% increase quarter-over-quarter and over 34 times increase year-over-year. This was largely due to the outstanding performance of the international education business, which recorded a remarkable 71.1% increase in revenue quarter-over-quarter and 45.5% increase year-over-year on a pro forma basis. Promethean, the international education business subsidiary, also recorded an operating profit for the second quarter of 2016 versus an operating loss in the first quarter of 2016, as a result of the increased revenue, improved gross margin and better cost control albeit significant increase of sales activities. ClassFlow<sup>TM</sup>, the

Company's flagship cloud-based interactive K-12 (Kindergarten-to-Grade 12) software for the international market, continued its growth in user base to nearly 750,000 registered users at the end of second quarter of 2016 (over 50% increase as compared to March 2016). The Company also continued to take market share as the Group has grown at a rate of more than 2.8 times the market growth in the K-12 interactive display market during the first half of the year and meanwhile has more than doubled the global market share in K-12 interactive flat panels, demonstrating the success of ClassFlow™ as being the key differentiation factor.

Revenue from the education business in China was RMB26.1 million in the second quarter of 2016, a 78.6% increase quarter-over-quarter and 93.5% increase year-over-year. While government funding started flowing in to schools across China starting from the second quarter of 2016, the Group expects such funding will drive significant revenue realization and securing of new sales contracts in the second half of 2016 for the online education smart classroom ecosystem featuring the flagship 101 Education PPT along with the broad offering of software components that cover pre-class lesson preparation, in-class collaborative lessons, after-school homework system, as well as customizable instant messaging designed specifically for education communities. The Group expects the bulk of this year's education revenue in China to be realized in the second half of 2016.

The Company continued to make strong progress in the second quarter of 2016 in its new product development and commercialization. The VR Editor, the flagship VR classroom application, is scheduled to be launched during the second half of 2016. The VR Editor will come with a wide range of "scenarios" and access to what the Company targets to be the largest 3D resource library for VR learning purpose. In terms of AR technologies, the Company has launched AR Wiz, the AR Editor which allows developers to power up applications with fun and engaging AR contents using the proprietary AR technologies. The joint venture with ARHT Media also made significant tractions in discussions with world-class celebrities and influential speakers to pave the way for the creation of O2O communities using hologram AR technologies. In the international K-12 markets, ClassFlow™ 5.0 was launched during the second quarter of 2016. In ClassFlow™ 5.0, marketplace has been extended to provide registered users with access not only to free resources but also to buy and sell resources via the ClassFlow™ platform. ClassFlow™ 5.0 also introduces several new features including ClassFlow™ Community, a discussion forum on educational or pedagogical issues, and Activity Builder that enables different types of activities to be readily inserted into lessons. The ClassFlow™ Moments smartphone app (for iOS and Android devices), which was recently launched, fosters communications between teachers and parents, and is expected to significantly increase user engagement outside of the classroom.

Looking forward, while the Company will continue to invest in the development of the products, the Group is confident that the product commercialization and revenue growth will continue its momentum into the second half of 2016.

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

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

<b>Name of Director</b>	<b>Name of Company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or amount of registered capital contributed</b>	<b>Approximate percentage of shareholding</b>
			<i>(Note 1)</i>	
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	254,138,457 (L)	51.19%
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	100,000(L)	0.02%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and beneficiary of certain trust	255,822,457 (L)	51.53%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%

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
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	254,138,457 (L)	51.19%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Chen Hongzhan (Note 5)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.26%
Chao Guowei, Charles (Note 6)	The Company	Beneficial owner	818,000 (L)	0.16%
Lee Kwan Hung (Note 7)	The Company	Beneficial owner	1,036,519 (L)	0.21%
Liu Sai Keung, Thomas (Note 8)	The Company	Beneficial owner	935,019 (L)	0.19%

*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 38.49% of the issued voting shares of the Company. Liu Dejian is also interested in 0.42% of the issued voting shares of the Company which is represented by beneficial interest of 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

Liu Luyuan is interested in 5.69% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 26,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.49% and 3.83%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.80% of the issued voting shares of the Company. Zheng Hui is also interested in 0.32% of the issued shares of the Company which is represented by beneficial interest of 1,582,200 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 51.19% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian and Liu Luyuan, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 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 0.02% of the issued voting shares of the Company which is represented by beneficial interest of 100,000 Shares.
5. Chen Hongzhan is interested in 2.26% of the issued voting shares of the Company which is represented by personal interest of 71,000 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 0.16% of the issued voting shares of the Company which is represented by personal interest of 579,500 shares and the rest being the underlying shares of interest of 238,500 shares options granted by the Company.
7. Lee Kwan Hung is interested in 0.21% of the issued voting shares of the Company which is represented by beneficial interest of 718,519 shares and the rest being underlying shares of interest of 318,000 share options granted by the Company.
8. Liu Sai Keung, Thomas is interested in 0.19% of the issued voting shares of the Company which is represented by beneficial interest of 117,019 shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2016, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30 June 2016, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	38.49%
IDG Group (Note 2)	The Company	Beneficial owner	78,333,320 (L)	15.78%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	78,333,320 (L)	15.78%
Zhou Quan (Note 2)	The Company	Through controlled corporations	73,490,095 (L)	14.80%
First Elite Group Limited (Note 3)	The Company	Beneficial owner and through controlled corporation	26,502,415 (L)	5.34%
Jardine PTC Limited (Note 3)	The Company	Trustee	26,502,415 (L)	5.34%

*Notes:*

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.19%, 10.47%, 2.14% 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 30 June 2016.



## SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the “Main Board Share Option Scheme”) to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 30 June 2016 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options			As at
			1 January 2016	Granted	Exercised	Lapsed	30 June 2016
<b>Executive Directors</b>							
Liu Dejian	22.07.2011	4.60	85,200	—	85,200	—	0
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	85,200	—	85,200	—	0
Chen Hongzhan	22.07.2011	4.60	85,200	—	85,200	—	0
<b>Independent non-executive Directors</b>							
Chao Guowei, Charles	04.12.2013	15.72	238,500	—	—	—	238,500
Lee Kwan Hung	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
<b>Others</b>							
Employees	28.04.2011	4.80	2,840,729	—	2,000,875	169,627	670,227
	22.07.2011	4.60	115,575	—	15,000	—	100,575
	23.04.2012	5.74	762,862	—	230,875	30,818	501,169
	06.07.2012	6.53	363,238	—	17,950	—	345,288
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	426,950	—	42,000	—	384,950
	25.04.2014	14.66	556,000	—	—	—	556,000
	11.05.2015	27.75	<u>214,000</u>	—	—	—	<u>214,000</u>
Total			<u>8,643,704</u>	<u>—</u>	<u>2,562,300</u>	<u>200,445</u>	<u>5,880,959</u>

*Note:*

1. During the period under review, 255,600 share options were exercised by Directors of the Company.

## SHARE AWARD SCHEME

### *The Company*

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

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

On 30 June 2016, 268,199 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 218,212 vested awarded shares as at 30 June 2016, a total of 218,212 awarded shares were vested by the Directors.

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

### *Best Assistant Education Online Limited (“Best Assistant”)*

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

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

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

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

As at 30 June 2016, no awarded shares were granted under the Best Assistant Share Award Scheme.

#### **ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT**

On 6 January 2015, Best Assistant entered into a subscription agreement (“Series A Agreement”) with IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (together referred to as “IDG Investors”), Vertex Asia Fund Pte. Ltd. (“Vertex”), Alpha Animation and Culture (Hong Kong) Company Limited (“Alpha”), Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon Websoft Inc. (“NetDragon BVI”), a direct wholly owned subsidiary of the Company (collectively referred to as “Series A Investors”) for the allotment and issue of an aggregate of 180,914,513 Series A preferred Shares (“Series A Preferred Shares”) for a total consideration of US\$52,500,000 (equivalent to approximately HK\$409.5 million). The Series A Agreement and the issue and allotment of the Series A Preferred Shares were completed on 13 February 2015. The Series A Preferred Shares represented 100% of all issued preferred shares of Best Assistant and accounted for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares.

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

As at 30 June 2016, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

## **ACQUISITION OF CHERRYPICKS ALPHA RESOURCES LIMITED AND CHERRYPICKS ALPHA HOLDINGS LIMITED AND ITS SUBSIDIARIES**

On 22 April 2016, Cherrypicks International Holdings Limited (the "First Purchaser") and NetDragon BVI (the "Second Purchaser"), both are wholly-owned subsidiaries of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Chiu Tsz Kiu Jason Felix (the "First Vendor") and Cherrypicks Alpha Holdings Limited (the "First Target Company"). Pursuant to the Sale and Purchase Agreement, (i) the First Vendor conditionally agreed to sell and the First Purchaser conditionally agreed to acquire the one ordinary issued share in the share capital of the First Target Company for consideration of USD1,500,000 and the incentive shares issued by the First Purchaser which represented 7.8% of the shareholding interest of the First Purchaser; and (ii) the First Target Company conditionally agreed to sell and the Second Purchaser conditionally agreed to acquire the entire issued share capital of Cherrypicks Alpha Resources Limited, a wholly-owned subsidiary of the First Target Company, for an aggregate consideration of USD3,160,000 which shall be satisfied in full by the allotment and issue of 1,087,621 new shares of the Company credited as fully paid up at an issue price of HKD22.6623 (the "Consideration Shares"). The completion of the Sale and Purchase Agreement took place on 19 May 2016. The Consideration Shares were allotted and issued on 19 May 2016 pursuant to the general mandate granted to the directors by the shareholders at the annual general meeting of the Company on 21 May 2015.

Further details of the acquisition are set out in the announcements of the Company dated 22 April 2016, 3 May 2016 and 19 May 2016, respectively.

## **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 2016.

## **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.

## **INTERIM DIVIDEND**

On 31 August 2016, the Board has resolved to declare an interim dividend of HKD0.10 per share for the six months ended 30 June 2016 (2015: 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 15 September 2016. It is expected that the interim dividend will be distributed on or about 30 September 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 15 September 2016 to Monday, 19 September 2016, 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 2016, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 14 September 2016.

## **AUDIT COMMITTEE**

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's interim results for the six months ended 30 June 2016 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 2016, the Company bought back a total of 4,840,000 shares on the Stock Exchange at an aggregate consideration of HKD93,386,630 before expenses.

Details of the shares buy-backs are as follows:

<b>Month of shares bought back</b>	<b>Number of ordinary shares bought back</b>	<b>Price per share</b>		<b>Aggregate consideration paid</b>
		<b>Highest</b>	<b>Lowest</b>	
		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
January 2016	<u>4,840,000</u>	<u>21.25</u>	<u>17.40</u>	<u>93,386,630</u>

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

Hong Kong, 31 August 2016

*As at the date of this announcement, the Board comprises five executive Directors, namely Liu Dejian, Leung Lim Kin Simon, 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.*