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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)

**THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS AND NINE MONTHS ENDED
30 SEPTEMBER 2016**

BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) recorded solid financial results of RMB694.5 million in revenue representing 167.7% increase year-over-year. Calibur of Spirit (英魂之刃) and Eudemons Online (魔域) continued to be well received among the players and the main driver for revenue growth and segmental profit on a year-over-year basis. On a quarterly basis, the performance in the third quarter of 2016 was in line with seasonality that is largely consistent with historical pattern in recent years. The Group is excited to see the pipeline for new games entering its strongest phase in recent years, with at least five new games to be launched in 2017, taking the games business to a new level.

The education business continued to register a strong third quarter of 2016 with revenues of RMB392.2 million, representing over 40 times growth year-over-year. For the international education business, Promethean recorded a 20.3% year-over-year increase in revenue on a pro-forma basis resulting in an improved gross profit margin and a positive EBITDA for the quarter. ClassFlow™, the international flagship cloud-based education platform, has grown its user base to 2.4 million users at the end of third quarter of 2016 (including over 1 million teachers), forming a strong foundation for user base growth in 2017. In China, encouraged by

the very positive user engagement feedback on the 101 Education PPT software, the Group has started to accelerate product sales during the quarter. Finally, the Group is very excited about the commercialization of the Virtual Reality (VR) Editor in 2017. This will be the world's first DIY VR editor software used for education.

Games Business

The Company's games business continued its growth momentum in the third quarter of 2016, with revenue at RMB286.6 million, a 19.9% increase year-over-year, and core segmental profit at RMB80.1 million, a 26.6% increase year-over-year. The solid performance was mainly attributable to broad-based revenue growth of Calibur of Spirit (英魂之刃) and Eudemons Online (魔域) and Eudemons Online Pocket Version* (魔域口袋版) .

While the third quarter of 2016 is a traditionally low season for Eudemons Online (魔域), its revenue recorded a strong 17.4% increase year-over-year. In addition, Eudemons Online Pocket Version* (魔域口袋版) continued to receive strong traction and recorded a record high monthly gross revenue in August 2016 on the back of the launch of new game-play features. Another flagship game, Calibur of Spirit (英魂之刃), also experienced 17.9% growth in revenue year-on-year demonstrating the continuous popularity of this game.

Various operational indicators including ACU and PCU have experienced fluctuations in the third quarter of 2016, due to seasonality and the stepped-up efforts in clearing bots during the period. Such clearing efforts are necessary for maintaining the healthy balance of the gaming ecosystem, which will strengthen the monetization scheme over time.

Looking into the rest of the year, the Company is confident to see strong revenue contribution from Eudemons Online (魔域) driven by the expansion pack launched in October 2016. Furthermore, the English version and Traditional Chinese version of Tiger Knight (虎豹骑), the new large-scale 3D online war game, were released on Steam platform in October 2016 and will start generating revenue for the fourth quarter of 2016.

* For identification purpose only

The management is excited about the pipeline the Group has built and a number of new games to be released in the next 12 months, including the new Eudemons Online Pocket Version* (魔域口袋版) to be co-developed with Kingsoft, several new games leveraging the technologies of Calibur of Spirit (英魂之刃), and the simplified Chinese version of Tiger Knight (虎豹骑). Such strong pipeline is expected to drive robust growth for the Company's games business in 2017 and beyond.

Finally, the Company has made significant progress in the integration VR and Augmented Reality (AR) technologies to the games. The Group has started adding VR capability to Tiger Knight (虎豹骑), which delivers an immersive real battle fighting experience to the players. The Company is confident that its proprietary technologies and know-how in gaming products will open up new revenue streams in the future.

Education Business

Revenue from the education business was RMB392.2 million for the third quarter of 2016, over 40 times increase year-over-year, which reflected the consolidation of Promethean's revenue and the beginning of revenue ramp-up of the education business in China.

On a pro-forma basis, the Promethean subsidiary registered a 20.3% increase year-over-year in revenue, demonstrating the success of the Company's acquisition and integration strategy. In addition, Promethean continued to make progress on streamlining operations as well as cost rationalization, resulted in a positive EBITDA for the third quarter of 2016.

The Company continued to invest in the development and marketing of ClassFlow™, its flagship cloud-based interactive K-12 (Kindergarten-to-Grade 12) software for the international market, with a user base that has grown to 2.4 million users (including over 1 million teachers) at the end of the third quarter of 2016.

The management is confident that 2017 will be a big year of user scaling and user engagement for ClassFlow™ because (1) the Group is on track to convert users of ActivInspire, the popular legacy lesson preparation software that works with K-12 interactive display products, into users of ClassFlow™ through a number of initiatives that will enable a seamless transition, and (2) users of the Promethean Planet community portal have recently been converted into ClassFlow™, thus directing traffic and activity into ClassFlow™, and (3) the Group is ramping up the engagement efforts through various online and high touch initiatives. Going forward, the Group will continue to execute the strategy of solving teachers' pain points and

* For identification purpose only

driving teachers' engagement and adoption of ClassFlow™, which in turn will drive adoption by students and parents.

Revenue from the education business in China was RMB55.5 million in the third quarter of 2016, a 482.5% increase year-over-year. The contracted revenue is at around RMB90.5 million from January to October this year. The third quarter of 2016 marks the beginning of the large scale commercialization in China, backed by the very positive user engagement feedback on the flagship 101 Education PPT software, including time-saving in lesson preparation, enhancement of classroom interactivity and the high frequency of user log-in and usage of the software. Such positive feedback is a validation to the value that the software creates for the users, which lays the foundation for a strong user ramp up in 2017 as the Group commences the broad-based user acquisition and engagement efforts.

During the quarter, the Company also completed the development of the beta version of the VR Editor, which the Group believes will be the world's first DIY VR Editor for education purpose with a comprehensive 3D content library. The Group will begin commercialization of VR Editor in the first half of 2017 in both K-12 and the higher-education space, and the Group expects such product to form a core component of the revenue going forward.

Looking forward, the Company also plans to expand its education business to emerging markets including India and the Middle East, while continues to focus on growing the user base of the products in the existing markets, which in turn will help drive revenue growth.

Financial Highlights

- Revenue was RMB694.5 million, representing a 167.7% increase year-over-year.
- Revenue from the games business was RMB286.6 million, representing 41.3% of the Group's total revenue, registered a 19.9% increase year-over-year.
- Revenue from the education business was RMB392.2 million, representing 56.5% of the Group's total revenue, registered over 40 times increase year-over-year.
- Gross profit was RMB385.0 million, representing a 78.7% increase year-over-year.

- Core segmental profit¹ from the games business was RMB80.1 million, representing a 26.6% increase year-over-year.
- Core segmental loss¹ from the education business was RMB106.3 million, representing a 44.3% increase year-over-year.
- Non-GAAP² operating loss was RMB88.9 million, mainly attributable to non-cash exchange difference, difference in government grants that tends to fluctuate from quarter to quarter, and lower revenue contribution from Promethean due to seasonality impact that is consistent with historical Q3 vs Q2 trend.
- Loss attributable to owners of the Company was RMB65.4 million.

Segmental Financial Highlights

| (RMB'000) | FY2016 Q3 | | FY2016 Q2 | | FY2015 Q3 | |
|--|-----------------|------------------|-----------|-----------|-----------|-----------|
| | Gaming | Education | Gaming | Education | Gaming | Education |
| Revenue | 286,559 | 392,220 | 296,697 | 480,107 | 238,961 | 9,526 |
| Gross profit | 266,002 | 115,436 | 279,736 | 155,803 | 216,593 | 1,162 |
| Gross margin | 92.8% | 29.4% | 94.3% | 32.5% | 90.6% | 12.2% |
| Core segmental profit (loss) ¹ | 80,110 | (106,301) | 99,356 | (87,695) | 63,286 | (73,689) |
| Segmental operating expenses ³ | | | | | | |
| - Research and development | (91,283) | (95,717) | (82,060) | (91,390) | (70,634) | (36,757) |
| - Selling and marketing | (39,223) | (81,561) | (37,732) | (95,323) | (35,329) | (6,756) |
| - Administrative | (62,046) | (32,569) | (66,586) | (39,090) | (56,980) | (23,099) |

- 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.
- Note 2: To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of non-GAAP operating loss measure is provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP operating loss measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating loss of the Group excludes share-based payments expense and amortisation of intangible assets arising on acquisition of subsidiaries.
- 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 third quarter of 2016, the second quarter of 2016 and the third quarter of 2015:

| | Three months ended | | |
|---|--|---|--|
| | 30 September 2016 (Unaudited) RMB'000 | 30 June 2016 (Unaudited) RMB'000 | 30 September 2015 (Unaudited) RMB'000 |
| Revenue | 694,544 | 786,907 | 259,412 |
| Cost of revenue | <u>(309,579)</u> | <u>(349,481)</u> | <u>(44,031)</u> |
| Gross profit | 384,965 | 437,426 | 215,381 |
| Other income and gains | 12,406 | 63,151 | 43,951 |
| Selling and marketing expenses | (122,819) | (134,777) | (42,663) |
| Administrative expenses | (172,074) | (162,141) | (133,516) |
| Development costs | (191,788) | (178,050) | (107,472) |
| Other expenses and losses | (16,041) | (16,646) | (3,270) |
| Share of (losses) profit of associates | <u>(184)</u> | <u>213</u> | <u>(3,177)</u> |
| Operating (loss) profit | (105,535) | 9,176 | (30,766) |
| Interest income on pledged bank deposit | — | — | 1,657 |
| Exchange loss on pledged bank deposit, secured bank borrowings and convertible preferred shares | (5,733) | (6,341) | (10,527) |
| Gain on derivative financial instrument | 37,276 | 92,180 | 13,408 |
| Net loss on disposal of held-for-trading investment | — | — | (525) |
| Net gain (loss) on held-for-trading investments | 5,656 | 4,255 | (2,334) |
| Finance costs | <u>(1,927)</u> | <u>(2,031)</u> | <u>(851)</u> |
| (Loss) profit before taxation | (70,263) | 97,239 | (29,938) |
| Taxation | <u>(4,082)</u> | <u>(6,679)</u> | <u>(8,072)</u> |
| (Loss) profit for the period | <u>(74,345)</u> | <u>90,560</u> | <u>(38,010)</u> |
| (Loss) profit for the period attributable to: | | | |
| - Owners of the Company | (65,435) | 70,669 | (26,530) |
| - Non-controlling interests | <u>(8,910)</u> | <u>19,891</u> | <u>(11,480)</u> |
| | <u>(74,345)</u> | <u>90,560</u> | <u>(38,010)</u> |

2016 Third 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*):

| | Three months ended | | | | |
|------------|----------------------|-----------------|------------------|---------------------|----------------------|
| | 30 September 2016 | 30 June 2016 | 31 March 2016 | 31 December 2015 | 30 September 2015 |
| PCU | 720,000 | 776,000 | 748,000 | 752,000 | 761,000 |
| ACU | 342,000 | 347,000 | 332,000 | 317,000 | 360,000 |

Note: As at 30 September 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.

- Monthly average revenue per user for online games was approximately RMB240, a 17.6% increase year-over-year.
- ACU for online games was approximately 342,000, a 5.0% decrease year-over-year.
- PCU for online games was approximately 720,000, a 5.4% decrease year-over-year.

RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company announced the unaudited condensed consolidated financial results of the Group for the three months and nine months ended 30 September 2016 together with the comparative figures in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

| | NOTES | Three months ended 30 September | | Nine months ended 30 September | |
|---|-------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | | 2016 <i>(Unaudited)</i> RMB'000 | 2015 <i>(Unaudited)</i> RMB'000 | 2016 <i>(Unaudited)</i> RMB'000 | 2015 <i>(Unaudited)</i> RMB'000 |
| Revenue | 4 | 694,544 | 259,412 | 2,053,088 | 771,637 |
| Cost of revenue | | (309,579) | (44,031) | (884,252) | (126,002) |
| Gross profit | | 384,965 | 215,381 | 1,168,836 | 645,635 |
| Other income and gains | 4 | 12,406 | 43,951 | 86,495 | 100,484 |
| Selling and marketing expenses | | (122,819) | (42,663) | (379,810) | (112,796) |
| Administrative expenses | | (172,074) | (133,516) | (525,799) | (358,614) |
| Development costs | | (191,788) | (107,472) | (538,950) | (291,503) |
| Other expenses and losses | | (16,041) | (3,270) | (34,786) | (12,012) |
| Share of losses of associates | | (184) | (3,177) | (714) | (8,489) |
| Operating loss | | (105,535) | (30,766) | (224,728) | (37,295) |
| Interest income on pledged bank deposit | | — | 1,657 | — | 4,847 |
| Exchange loss on pledged bank deposit, secured bank borrowings and convertible preferred shares | | (5,733) | (10,527) | (9,882) | (9,881) |
| Gain on derivative financial instrument | | 37,276 | 13,408 | 133,117 | 13,408 |
| Net (loss) gain on disposal of held-for-trading investments | | — | (525) | — | 876 |
| Net gain (loss) on held-for-trading investments | | 5,656 | (2,334) | 6,666 | (13,066) |
| Finance costs | | (1,927) | (851) | (6,695) | (2,491) |
| Loss before taxation | | (70,263) | (29,938) | (101,522) | (43,602) |
| Taxation | 6 | (4,082) | (8,072) | (17,056) | (20,066) |
| Loss for the period | 7 | (74,345) | (38,010) | (118,578) | (63,668) |

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|--|--|--|--|
| | 2016 <i>(Unaudited)</i> <i>RMB'000</i> | 2015 <i>(Unaudited)</i> <i>RMB'000</i> | 2016 <i>(Unaudited)</i> <i>RMB'000</i> | 2015 <i>(Unaudited)</i> <i>RMB'000</i> |
| Other comprehensive (expense) income 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 | (5,359) | 3,796 | (50,609) | 3,667 |
| Fair value loss on available-for-sale investment | (3,131) | — | (6,579) | — |
| Other comprehensive (expense) income for the period | (8,490) | 3,796 | (57,188) | 3,667 |
| Total comprehensive expense for the period | <u>(82,835)</u> | <u>(34,214)</u> | <u>(175,766)</u> | <u>(60,001)</u> |
| Loss for the period attributable to: | | | | |
| - Owners of the Company | (65,435) | (26,530) | (108,329) | (44,904) |
| - Non-controlling interests | (8,910) | (11,480) | (10,249) | (18,764) |
| | <u>(74,345)</u> | <u>(38,010)</u> | <u>(118,578)</u> | <u>(63,668)</u> |
| Total comprehensive expense attributable to: | | | | |
| - Owners of the Company | (73,095) | (22,734) | (158,099) | (41,237) |
| - Non-controlling interests | (9,740) | (11,480) | (17,667) | (18,764) |
| | <u>(82,835)</u> | <u>(34,214)</u> | <u>(175,766)</u> | <u>(60,001)</u> |
| | <i>RMB cents</i> | <i>RMB cents</i> | <i>RMB cents</i> | <i>RMB cents</i> |
| Loss per share | 9 | | | |
| - Basic | (13.18) | (5.34) | (21.89) | (9.07) |
| - Diluted | <u>(13.18)</u> | <u>(5.34)</u> | <u>(21.89)</u> | <u>(9.07)</u> |

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

| | | 30 September 2016 | 31 December 2015 |
|---|--------------|------------------------------|-------------------------|
| | | <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 | 1,330,881 | 1,246,117 |
| Prepaid lease payments | 11 | 548,521 | 438,677 |
| Investment properties | | 55,791 | 55,377 |
| Intangible assets | | 815,110 | 953,950 |
| Interests in associates | | 16,931 | 18,883 |
| Available-for-sale investments | | 22,606 | 5,000 |
| Loan receivables | | 21,073 | 23,081 |
| Trade receivables | 12 | 15,157 | 18,112 |
| Deposits made for acquisition of property, plant and equipment | | 14,824 | 18,302 |
| Goodwill | | 370,966 | 334,839 |
| Deferred tax assets | | 3,230 | 3,611 |
| | | <u>3,215,090</u> | <u>3,115,949</u> |
| Current assets | | | |
| Inventories | | 170,370 | 117,584 |
| Prepaid lease payments | 11 | 6,789 | 2,733 |
| Loan receivables | | 12,370 | 3,397 |
| Trade receivables | 12 | 313,469 | 234,733 |
| Amounts due from customers for contract work | | 8,085 | 4,339 |
| Other receivables, prepayments and deposits | | 117,861 | 115,918 |
| Amount due from a related company | | 1,704 | 1,704 |
| Amounts due from associates | | 9,222 | 11,204 |
| Tax recoverable | | 2,941 | 11,159 |
| Held-for-trading investment | | 177,306 | 170,640 |
| Pledged bank deposit | | 396 | — |
| Bank deposits | | 131,553 | 583,091 |
| Bank balances and cash | | 789,478 | 1,126,957 |
| | | <u>1,741,544</u> | <u>2,383,459</u> |
| Assets classified as held for sale | | <u>—</u> | <u>2,690</u> |
| | | <u>1,741,544</u> | <u>2,386,149</u> |

| | | 30 September 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|--|--------------|--|---|
| | <i>NOTES</i> | | |
| Current liabilities | | | |
| Trade and other payables | 13 | 471,132 | 507,592 |
| Amounts due to customers for contract work | | 1,312 | 993 |
| Provisions | | 33,109 | 29,373 |
| Deferred income | | 85,807 | 85,039 |
| Amount due to a related company | | 444 | 2,254 |
| Amounts due to associates | | 1,244 | 9,632 |
| Convertible preferred shares | 14 | 153,227 | 278,499 |
| Secured bank borrowings | 15 | 37,859 | 25,142 |
| Income tax payable | | <u>30,986</u> | <u>95,194</u> |
| | | <u>815,120</u> | <u>1,033,718</u> |
| Net current assets | | <u>926,424</u> | <u>1,352,431</u> |
| Total assets less current liabilities | | <u>4,141,514</u> | <u>4,468,380</u> |
| Non-current liabilities | | | |
| Other payables | | 6,465 | 12,723 |
| Provisions | | 1,731 | 2,027 |
| Deferred tax liabilities | | <u>127,652</u> | <u>149,993</u> |
| | | <u>135,848</u> | <u>164,743</u> |
| Net assets | | <u>4,005,666</u> | <u>4,303,637</u> |
| Capital and reserves | | | |
| Share capital | | 36,654 | 36,726 |
| Share premium and reserves | | 3,966,018 | 4,257,120 |
| Equity attributable to owners of the Company | | 4,002,672 | 4,293,846 |
| Non-controlling interests | | <u>2,994</u> | <u>9,791</u> |
| | | <u>4,005,666</u> | <u>4,303,637</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

| | 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 | Available-for-sale investment 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 | 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 | — | — | — | — | — | — | — | — | — | — | — | — | (44,904) | (44,904) | (18,764) | (63,668) |
| Other comprehensive income for the period | — | — | — | — | — | — | — | — | — | — | 3,667 | — | — | 3,667 | — | 3,667 |
| Total comprehensive income (expense) for the period | — | — | — | — | — | — | — | — | — | — | 3,667 | — | (44,904) | (41,237) | (18,764) | (60,001) |
| Repurchase and cancellation of shares | (486) | (70,095) | 486 | — | — | — | — | — | — | — | — | — | (486) | (70,581) | — | (70,581) |
| Shares issued upon exercise of share options | 268 | 27,087 | — | — | — | — | — | — | — | (8,250) | — | — | — | 19,105 | — | 19,105 |
| Issue of shares by a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 1,211 | 1,211 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | — | — | — | 3,595 | — | — | — | 3,595 | — | 3,595 |
| 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 declared and paid | — | — | — | — | — | — | — | — | — | — | — | — | (39,246) | (39,246) | — | (39,246) |
| At 30 September 2015 (unaudited) | 36,725 | 887,278 | 5,709 | 38,640 | 10,035 | 253,630 | — | 673 | (3,253) | 25,039 | (55,682) | — | 3,161,246 | 4,360,040 | 35,921 | 4,395,961 |
| 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 | — | — | — | — | — | — | — | — | — | — | — | — | (108,329) | (108,329) | (10,249) | (118,578) |
| Other comprehensive expense for the period | — | — | — | — | — | — | — | — | — | — | (43,191) | (6,579) | — | (49,770) | (7,418) | (57,188) |
| Total comprehensive expense for the period | — | — | — | — | — | — | — | — | — | — | (43,191) | (6,579) | (108,329) | (158,099) | (17,667) | (175,766) |
| Repurchase and cancellation of shares | (357) | (78,585) | 357 | — | — | — | — | — | — | — | — | — | (357) | (78,942) | — | (78,942) |
| Shares issued upon exercise of share options | 214 | 22,694 | — | — | — | — | — | — | — | (6,766) | — | — | — | 16,142 | — | 16,142 |
| Shares issued upon acquisition of subsidiaries | 71 | 20,805 | — | — | — | — | — | — | — | — | — | — | — | 20,876 | — | 20,876 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | — | — | — | 3,268 | — | — | — | 3,268 | — | 3,268 |
| Awarded shares vested to employees | — | — | — | — | — | — | — | — | 1,130 | (3,345) | — | — | 2,215 | — | — | — |
| Deemed disposal of subsidiaries to non-controlling shareholders | — | — | — | (2,585) | — | — | — | — | — | — | — | — | — | (2,585) | 8,377 | 5,792 |
| Acquisition of additional equity interests from non-controlling interests | — | — | — | (7,751) | — | — | — | — | — | — | — | — | — | (7,751) | (253) | (8,004) |
| Contribution from non-controlling interests of subsidiaries | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 3,723 | 3,723 |
| Acquisition of a non-wholly owned subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 138 | 138 |
| Dividend paid to non-controlling interest of a subsidiary | — | — | — | — | — | — | — | — | — | — | — | — | — | — | (1,115) | (1,115) |
| Transfer upon deregistration of a subsidiary | — | — | — | (1) | — | — | — | — | — | — | — | — | 1 | — | — | — |
| Final dividend for 2015 paid | — | — | — | — | — | — | (49,767) | — | — | — | — | — | 8,178 | (41,589) | — | (41,589) |
| Interim dividend for 2016 declared and paid | — | — | — | — | — | — | — | — | — | — | — | — | (42,494) | (42,494) | — | (42,494) |
| At 30 September 2016 (unaudited) | 36,654 | 852,254 | 6,066 | 29,127 | 10,035 | 260,714 | — | 22,449 | (2,123) | 19,750 | (91,209) | (6,579) | 2,865,534 | 4,002,672 | 2,994 | 4,005,666 |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

| | Nine months ended 30 September | |
|--|-----------------------------------|--------------------|
| | 2016 | 2015 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| NET CASH USED IN OPERATING ACTIVITIES | (319,171) | (44,285) |
| INVESTING ACTIVITIES | | |
| Placement of bank deposits | (552,361) | (1,304,752) |
| Purchase of property, plant and equipment | (190,977) | (386,096) |
| Purchase of prepaid lease payments | (118,623) | (38,169) |
| Purchase of available-for-sale investment | (24,185) | — |
| Purchase of intangible assets | (19,439) | (9,073) |
| Acquisitions of subsidiaries | (9,579) | (71,620) |
| Deposits paid for acquisition of property, plant and equipment | (3,154) | (9,736) |
| Placement of pledged bank deposit | (396) | — |
| Deposit paid for acquisition of subsidiaries | — | (777,671) |
| Proceeds from disposal of subsidiaries | — | 61,396 |
| Proceeds from disposal of held-for-trading investments | — | 32,676 |
| Other investing activities | 14,377 | 80,134 |
| Withdrawal of bank deposits | 1,007,235 | 2,542,043 |
| NET CASH FROM INVESTING ACTIVITIES | 102,898 | 119,132 |
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | 1,294,108 | — |
| Proceeds from shares issued upon exercise of share options | 16,142 | 19,105 |
| Contribution from non-controlling shareholders | 3,723 | — |
| Proceeds from issue of convertible preferred shares | — | 260,359 |
| Other financing activities | (1,168) | (265) |
| Repayment of other borrowing | (3,270) | — |
| Payment for repurchase of shares | (78,942) | (70,581) |
| Dividends paid | (84,083) | (117,631) |
| Repayment of bank borrowings | (1,284,883) | — |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (138,373) | 90,987 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (354,646) | 165,834 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 1,126,957 | 1,036,788 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 17,167 | (4,308) |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH | 789,478 | 1,198,314 |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 amounts included in the condensed consolidated financial statements have been computed in accordance with 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 and investment properties, 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 nine months ended 30 September 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 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 | | Nine months ended | |
|--|--------------------|----------------|-------------------|----------------|
| | 30 September | | 30 September | |
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | | | | |
| Online game revenue | 286,559 | 238,961 | 867,323 | 702,182 |
| Education revenue | 392,220 | 9,526 | 1,152,269 | 32,975 |
| Mobile solution, products and marketing revenue | 15,765 | 10,925 | 33,496 | 36,480 |
| | <u>694,544</u> | <u>259,412</u> | <u>2,053,088</u> | <u>771,637</u> |
| Other income and gains | | | | |
| Government grants (<i>Note</i>) | 511 | 4,806 | 50,878 | 15,651 |
| Interest income | 2,858 | 14,075 | 15,377 | 52,037 |
| Net foreign exchange gain | — | 20,590 | 2,061 | 20,590 |
| Game implementation income | 2,591 | 3,282 | 6,041 | 10,215 |
| Gain on disposal of assets classified as held for sale | — | — | 1,601 | — |
| Rental income, net of negligible outgoing expenses | 1,524 | 319 | 4,515 | 772 |
| Server rental income | 4 | 108 | 659 | 323 |
| Reversal of allowance for doubtful debts | 3,106 | — | 3,106 | — |
| Others | 1,812 | 771 | 2,257 | 896 |
| | <u>12,406</u> | <u>43,951</u> | <u>86,495</u> | <u>100,484</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:

Nine months ended 30 September 2016

| | Online game (Unaudited) RMB’000 | Education (Unaudited) RMB’000 | Mobile solution, products and marketing (Unaudited) RMB’000 | Total (Unaudited) RMB’000 |
|--|---------------------------------------|-------------------------------------|--|---------------------------------|
| Segment revenue | <u>867,323</u> | <u>1,152,269</u> | <u>33,496</u> | <u>2,053,088</u> |
| Segment profit (loss) | <u>100,346</u> | <u>29,990</u> | <u>(15,502)</u> | 114,834 |
| Unallocated income and gains | | | | 16,863 |
| Unallocated expenses and losses | | | | (239,885) |
| Net gain on held-for-trading investment | | | | <u>6,666</u> |
| Loss before taxation | | | | <u>(101,522)</u> |

Three months ended 30 September 2016

| | Online game (Unaudited) RMB’000 | Education (Unaudited) RMB’000 | Mobile solution, products and marketing (Unaudited) RMB’000 | Total (Unaudited) RMB’000 |
|--|---------------------------------------|-------------------------------------|--|---------------------------------|
| Segment revenue | <u>286,559</u> | <u>392,220</u> | <u>15,765</u> | <u>694,544</u> |
| Segment profit (loss) | <u>26,362</u> | <u>(14,766)</u> | <u>(2,418)</u> | 9,178 |
| Unallocated income and gains | | | | 1,877 |
| Unallocated expenses and losses | | | | (86,974) |
| Net gain on held-for-trading investment | | | | <u>5,656</u> |
| Loss before taxation | | | | <u>(70,263)</u> |

Nine months ended 30 September 2015

| | Online game (Unaudited) RMB'000 | Education (Unaudited) RMB'000 | Mobile solution and marketing (Unaudited) RMB'000 | Total (Unaudited) RMB'000 |
|---|---------------------------------------|-------------------------------------|---|---------------------------------|
| Segment revenue | <u>702,182</u> | <u>32,975</u> | <u>36,480</u> | <u>771,637</u> |
| Segment profit (loss) | <u>181,892</u> | <u>(114,153)</u> | <u>(14,403)</u> | 53,336 |
| Unallocated income and gains | | | | 64,520 |
| Unallocated expenses and losses | | | | (148,392) |
| Net loss on held-for-trading investments | | | | <u>(13,066)</u> |
| Loss before taxation | | | | <u>(43,602)</u> |

Three months ended 30 September 2015

| | Online game (Unaudited) RMB'000 | Education (Unaudited) RMB'000 | Mobile solution and marketing (Unaudited) RMB'000 | Total (Unaudited) RMB'000 |
|---|---------------------------------------|-------------------------------------|---|---------------------------------|
| Segment revenue | <u>238,961</u> | <u>9,526</u> | <u>10,925</u> | <u>259,412</u> |
| Segment profit (loss) | <u>64,905</u> | <u>(57,094)</u> | <u>(7,498)</u> | 313 |
| Unallocated income and gains | | | | 24,579 |
| Unallocated expenses and losses | | | | (52,496) |
| Net loss on held-for-trading investments | | | | <u>(2,334)</u> |
| Loss before taxation | | | | <u>(29,938)</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, net (loss) gain on disposal of held-for-trading investments, 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:

| | 30 September 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|--|---|
| Online game | 2,192,986 | 2,699,063 |
| Education | 1,996,415 | 1,841,183 |
| Mobile solution, products and marketing | <u>193,531</u> | <u>165,992</u> |
| Total segment assets | 4,382,932 | 4,706,238 |
| Unallocated | <u>573,702</u> | <u>795,860</u> |
| | <u><u>4,956,634</u></u> | <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

| | Three months ended 30 September 2016 (Unaudited) RMB'000 | | Nine months ended 30 September 2016 (Unaudited) RMB'000 | |
|--|---|--------------------------------|--|--------------------------------|
| | 2015 (Unaudited) RMB'000 | 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 | 2016 (Unaudited) RMB'000 |

The tax charge comprises:

| | | | | |
|--|----------------------------|---------------------|-----------------------------|----------------------|
| Hong Kong Profits Tax | 1,952 | 2,249 | 4,596 | 5,188 |
| The PRC Enterprise Income Tax ("EIT") | 5,249 | 5,819 | 21,459 | 14,791 |
| Taxation in other jurisdiction | 124 | 70 | 518 | 153 |
| Deferred tax | <u>(3,243)</u> | <u>(66)</u> | <u>(9,517)</u> | <u>(66)</u> |
| | <u><u>4,082</u></u> | <u><u>8,072</u></u> | <u><u>17,056</u></u> | <u><u>20,066</u></u> |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months and nine months ended 30 September 2016 and 30 September 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 three months and nine months ended 30 September 2016.

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

7. LOSS FOR THE PERIOD

| | Three months ended | | Nine months ended | |
|---|--|--------------------------------|--|--------------------------------|
| | 30 September 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 | 30 September 2016 (Unaudited) RMB'000 | 2015 (Unaudited) RMB'000 |
| Loss for the period has been arrived at after charging (crediting): | | | | |
| Staff costs: | | | | |
| Directors' emoluments | 2,224 | 1,473 | 8,692 | 4,220 |
| Other staff costs | | | | |
| Salaries and other benefits | 276,997 | 147,513 | 835,340 | 410,177 |
| Contributions to retirement benefits schemes | 28,978 | 19,723 | 76,980 | 48,309 |
| Share-based payments expense | 700 | 2,313 | 423 | 5,894 |
| | <u>308,899</u> | <u>171,022</u> | <u>921,435</u> | <u>468,600</u> |
| Amortisation of intangible assets | 33,305 | 6,250 | 97,105 | 15,375 |
| Release of prepaid lease payments (included in administrative expenses) | 1,686 | 681 | 4,723 | 2,126 |
| Depreciation of property, plant and equipment | <u>38,057</u> | <u>28,697</u> | <u>109,469</u> | <u>80,913</u> |
| Total depreciation and amortisation | <u>73,048</u> | <u>35,628</u> | <u>211,297</u> | <u>98,414</u> |
| Allowance of trade receivables | 2,201 | — | 2,201 | — |
| Reversal of allowance for doubtful debts | (3,106) | — | (3,106) | — |
| Cost of goods sold for education equipment | 260,305 | 1,122 | 740,785 | 1,471 |
| Operating lease rentals in respect of: | | | | |
| - rented premises | 15,846 | 12,722 | 47,050 | 33,605 |
| - computer equipment | 11,418 | 13,687 | 34,589 | 42,475 |
| Gross rental income from investment properties | (423) | — | (1,250) | — |
| Less: Direct operating expenses incurred for investment properties that generated rental income during the period | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u>(423)</u> | <u>—</u> | <u>(1,250)</u> | <u>—</u> |
| Loss on disposal of property, plant and equipment | 260 | 281 | 1,272 | 590 |
| 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 | — | — | 1,075 | — |
| (Gain) loss on fair value of investment properties | (1,171) | — | 1,102 | — |
| Net foreign exchange loss (gain) | <u>10,406</u> | <u>(14,672)</u> | <u>7,821</u> | <u>(10,709)</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).

Interim dividend of HKD0.10 per share for the six months ended 30 June 2016 (six months ended 30 June 2015: HKD0.10 per share), amounting to RMB42,494,000 (six months ended 30 June 2015: RMB39,246,000) in aggregate, had been approved by the directors of the Company at the Board meeting on 31 August 2016 and was paid on 30 September 2016.

The directors of the Company do not recommend the payment of an interim dividend for the three months ended 30 September 2016 (three months ended 30 September 2015: Nil).

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:

| | Three months ended | | Nine months ended | |
|---|---------------------------|------------------------|--------------------------|------------------------|
| | 30 September | | 30 September | |
| | 2016 | 2015 | 2016 | 2015 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Loss for the purpose of basic and diluted loss per share: | | | | |
| - loss for the period attributable to the owners of the Company | <u>(65,435)</u> | <u>(26,530)</u> | <u>(108,329)</u> | <u>(44,904)</u> |

| | Number of shares | | | |
|--|-----------------------|----------------|-----------------------|----------------|
| | Three months ended | | Nine months ended | |
| | 30 September | | 30 September | |
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | '000 | '000 | '000 | '000 |
| 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) | 496,408 | 496,827 | 494,937 | 495,064 |
| Effect of dilutive potential shares from the Company's share option scheme (Note) | — | — | — | — |
| 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>496,408</u> | <u>496,827</u> | <u>494,937</u> | <u>495,064</u> |

Note: The calculation of diluted loss per share for the three months and nine months ended 30 September 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 nine months ended 30 September 2016, the deposits of approximately RMB6,632,000 were transferred to property, plant and equipment (nine months ended 30 September 2015: RMB5,692,000) and the Group spent approximately RMB191,752,000 (nine months ended 30 September 2015: RMB388,010,000) for the acquisition of property, plant and equipment to expand its operations which included an amount of approximately RMB775,000 (nine months ended 30 September 2015: RMB1,914,000) being acquired upon the acquisition of subsidiaries. The additions for the period mainly included RMB74,929,000 (nine months ended 30 September 2015: RMB47,182,000) in plant and equipment and RMB102,295,000 (nine months ended 30 September 2015: RMB309,088,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

11. PREPAID LEASE PAYMENTS

During the nine months ended 30 September 2016, the Group spent approximately RMB118,623,000 (nine months ended 30 September 2015: RMB38,169,000) 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 nine months ended 30 September 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.

| | 30 September 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|--|--|---|
| Trade debtors | | |
| 0 - 30 days | 196,037 | 126,351 |
| 31 - 60 days | 62,152 | 63,674 |
| 61 - 90 days | 17,500 | 19,197 |
| Over 90 days | 30,312 | 13,681 |
| Receivables with extended credit terms | | |
| Due within one year | 7,468 | 11,830 |
| Due after one year | 15,157 | 18,112 |
| | <u>328,626</u> | <u>252,845</u> |

13. TRADE AND OTHER PAYABLES

| | 30 September 2016 (Unaudited) RMB'000 | 31 December 2015 (Audited) RMB'000 |
|---|--|---|
| Trade payables | 199,245 | 198,132 |
| Accrued staff costs | 102,500 | 133,786 |
| Receipt in advance | 42,815 | 30,442 |
| Other tax payables (<i>Note a</i>) | 11,712 | 15,430 |
| Other payables and accruals (<i>Note b</i>) | 114,860 | 129,802 |
| | <u>471,132</u> | <u>507,592</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 as at 31 December 2015, an amount of approximately RMB0.8 million (2016: nil) 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.

| | 30 September 2016 (Unaudited) RMB’000 | 31 December 2015 (Audited) RMB’000 |
|----------------|--|---|
| 0 - 90 days | 193,882 | 137,998 |
| 91 - 180 days | 2,814 | 57,186 |
| 181 - 365 days | 1,246 | 2,297 |
| Over 365 days | <u>1,303</u> | <u>651</u> |
| | <u>199,245</u> | <u>198,132</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 13.57% 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:

| | 30 September | 31 December |
|---|-----------------------|------------------|
| | 2016 | 2015 |
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| At the beginning of the period | 278,499 | — |
| Issue of convertible preferred shares | — | 260,474 |
| Payment for repurchase of shares by the Group | (53) | — |
| Fair value change | (133,117) | 2,521 |
| Exchange realignment | <u>7,898</u> | <u>15,504</u> |
| At the end of the period | <u>153,227</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.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2016, we had pledged bank deposit, bank deposits and bank balances and cash of approximately RMB921.4 million (31 December 2015: RMB1,710.0 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.01 (31 December 2015: 0.01). As at 30 September 2016, total bank borrowings of the Group amounted to approximately RMB37.9 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 September 2016, the Group had net current assets of approximately RMB926.4 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:

| | At 30 September 2016 | At 30 June 2016 | At 30 September 2015 |
|---|----------------------------|-----------------------|----------------------------|
| Research and development | 3,506 | 3,135 | 2,645 |
| Selling and marketing | 1,191 | 1,169 | 736 |
| Accounting, finance and general administration | 1,002 | 931 | 742 |
| Production | <u>287</u> | <u>312</u> | <u>—</u> |
| Total | <u><u>5,986</u></u> | <u><u>5,547</u></u> | <u><u>4,123</u></u> |

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

As at 30 September 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:

| Name of Director | Name of Company | Capacity and nature of interests | Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i> | Approximate percentage of shareholding |
|---------------------------------------|------------------------|---|---|---|
| Liu Dejian <i>(Note 2)</i> | The Company | Beneficial owner, through a controlled corporation and beneficiary of a trust | 254,138,457 (L) | 51.11% |
| 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) | 51.45% |
| Liu Luyuan <i>(Note 3)</i> | NetDragon (Fujian) | Beneficial owner | RMB299,880,000 (L) | 99.96% |
| Zheng Hui <i>(Note 2)</i> | The Company | Beneficial owner and through controlled corporations | 254,138,457 (L) | 51.11% |
| Zheng Hui <i>(Note 3)</i> | NetDragon (Fujian) | Beneficial owner | RMB299,880,000 (L) | 99.96% |
| Chen Hongzhan <i>(Note 5)</i> | The Company | Beneficial owner and beneficiary of certain trust | 11,197,019 (L) | 2.25% |
| Chao Guowei, Charles <i>(Note 6)</i> | The Company | Beneficial owner | 818,000 (L) | 0.16% |
| Lee Kwan Hung <i>(Note 7)</i> | The Company | Beneficial owner | 1,016,019 (L) | 0.20% |
| Liu Sai Keung, Thomas <i>(Note 8)</i> | The Company | Beneficial owner | 875,019 (L) | 0.18% |

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 38.43% 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 5.68% of the issued voting shares of the Company which is represented by interest held as a beneficiary of certain trust holding in aggregate 26,541,819 shares, and the rest being underlying shares of interest of 1,684,000 share options granted by the Company.

Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.43% and 3.83%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.80% of the issued voting shares of the Company. Zheng Hui is also interested in 0.30% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 shares.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.11% 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 2.25% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.

6. Chao Guowei, Charles is interested in 0.16% 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 0.20% of the issued voting shares of the Company which is represented by beneficial interest of 698,019 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 0.18% of the issued voting shares of the Company which is represented by beneficial interest of 257,019 shares and the rest being underlying shares of interest of 618,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 September 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 September 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) | 38.43% |
| IDG Group (Note 2) | The Company | Beneficial owner | 78,333,320 (L) | 15.76% |
| Ho Chi Sing (Note 2) | The Company | Through controlled corporations | 78,333,320 (L) | 15.76% |
| Zhou Quan (Note 2) | The Company | Through controlled corporations | 73,490,095 (L) | 14.78% |
| First Elite Group Limited (Note 3) | The Company | Beneficial owner and through controlled corporation | 26,502,415 (L) | 5.33% |
| Jardine PTC Limited (Note 3) | The Company | Trustee | 26,502,415 (L) | 5.33% |

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.19%, 10.46%, 2.14% and 0.97% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

- a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. First Elite Group Limited is interested in 157,615 shares directly held by it and 26,344,800 shares held by Richmedia Holdings Limited, a company wholly-owned by First Elite Group Limited. First Elite Group Limited is in turn controlled by Jardine PTC Limited, which held relevant interest in trust for Liu Luyuan.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 September 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 September 2016 are as follows:

| Grantee | Date of grant | Exercise Price HKD | As at | Number of share options | | | As at 30 |
|--|---------------|-----------------------|------------------|-------------------------|------------------|----------------|------------------|
| | | | 1 January 2016 | Granted | Exercised | Lapsed | September 2016 |
| Executive Directors | | | | | | | |
| 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 |
| Independent non-executive Directors | | | | | | | |
| 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 | — | 0 |
| | 23.04.2012 | 5.74 | 300,000 | — | — | — | 300,000 |
| | 04.12.2013 | 15.72 | 318,000 | — | — | — | 318,000 |
| Others | | | | | | | |
| Employees | 28.04.2011 | 4.80 | 2,840,729 | — | 2,083,350 | 213,577 | 543,802 |
| | 22.07.2011 | 4.60 | 115,575 | — | 56,625 | — | 58,950 |
| | 23.04.2012 | 5.74 | 762,862 | — | 253,500 | 30,818 | 478,544 |
| | 06.07.2012 | 6.53 | 363,238 | — | 96,262 | 3,150 | 263,826 |
| | 12.09.2012 | 7.20 | 50,250 | — | — | — | 50,250 |
| | 16.01.2013 | 11.164 | 426,950 | — | 50,800 | — | 376,150 |
| | 25.04.2014 | 14.66 | 556,000 | — | 278,000 | — | 278,000 |
| | 11.05.2015 | 27.75 | <u>214,000</u> | — | — | — | <u>214,000</u> |
| Total | | | <u>8,643,704</u> | <u>—</u> | <u>3,274,137</u> | <u>247,545</u> | <u>5,122,022</u> |

Note:

1. During the period under review, 455,600 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 September 2016, 238,185 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 248,226 vested awarded shares as at 30 September 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 September 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 86.14% to approximately 77.94%.

As at 30 September 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 entire share capital of the First Target Company for a consideration of USD1,500,000 and the First Purchaser agrees to allot and issue its shares to the First Vendor, representing 7.8% of the entire share capital of First Purchaser as at completion as enlarged by the allotment and issue of such shares; and (ii) the First Target Company 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 was 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") pursuant to the general mandate granted to the directors by the shareholders at the annual general meeting of the Company on 21 May 2015. The Consideration Shares were held in a securities account in the name of the trustee, Bank of Communications Trustee Limited and shall hold the Consideration Shares upon trust exclusively for the First Vendor and certain employees of (i) Cherrypicks Alpha Resources Limited, (ii) the First Purchaser; (iii) the First Target Company, its subsidiaries and associated companies from time to time after completion and subject to certain vesting conditions and other terms and conditions set out in the Trust Document. 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.

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 nine months ended 30 September 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.

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 nine months ended 30 September 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 nine months ended 30 September 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:

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

REVIEW OF QUARTERLY RESULTS

The third quarterly 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 HKICPA, and reviewed by the Audit Committee of the Company, comprising of three independent non-executive Directors.

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

Hong Kong, 1 December 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.