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## **NetDragon Websoft Holdings Limited**

**網龍網絡控股有限公司**

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

**(Stock Code: 777)**

### **FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2017**

#### **BUSINESS REVIEW AND OUTLOOK**

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) delivered strong financial results during the first quarter of 2017, with a 24.8% increase year-over-year in its revenue to RMB713.4 million. The games business delivered robust performance with a revenue increase of 40.3% year-over-year. This served as a strong testament to the flagship games including Eudemons Online (魔域) and Heroes Evolved (英魂之刃). The Group is excited to see the increasing contribution from the mobile games as mobile revenue more than doubled year-over-year. The Group expects to carry the momentum into the upcoming quarters as the Group starts to see revenue contribution from the new games. Meanwhile the Group has a strong pipeline in terms of integrating the Virtual Reality (VR) and Augmented Reality (AR) technologies into the games which will expand the gaming portfolio into a new territory with substantial growth potential.

The Group is seeing very positive momentum in the education business. The user-scaling in China is gaining traction as the Company has significantly expanded the geographical coverage in terms of the cooperation with provincial and local education bureaus. The international education business also delivered a steady performance in terms of revenue in the first quarter of 2017, and the Group is seeing significant ramp up of the sales pipeline as the Group moves into the peak season in the second quarter of 2017 and the third quarter of 2017, paving the way for what the Group expects to be a robust growth of the revenue for the rest of the year. In addition, the Group is continuing to make progress to capitalize the Belt and Road Initiative to tap into the emerging markets in order to expand the global footprints. The partnership in Russia announced in March 2017 is the first step and the Group is seeing momentum in many other sizable new opportunities within the region.

In addition to seeing strong revenue performance of the core businesses, the Group is also delighted to see substantial improvement in the profitability as the Group has delivered a positive EBITDA during the first quarter of 2017 while the loss attributable to owners and Non-GAAP operating loss for the Company as a whole have reduced by more than 50% on a year-over-year basis. The Group has achieved this by driving higher profitability for the gaming business and continuing to optimize the cost structure for the international education business as part of the post-acquisition integration of Prometheus. Looking forward, the Group expects to be on track to achieve operating profitability.

## **Games Business**

During the first quarter of 2017, the Company's games business continued to deliver substantial growth, with revenue at RMB398.5 million, a 40.3% increase year-over-year, and core segmental profit at RMB168.8 million, a 78.9% increase year-over-year. The robust development in the games business was mainly attributable to the ability to expand monetization schemes through deep understanding of player demands, as well as increasing contribution from the mobile games. As a new growth driver, the mobile games business registered a 117.4% increase year-over-year. In addition, the APA and ARPU showed further improvement, with a year-over-year increase of 39.2% and 55.6% respectively.

While the Company continues to see revenue growth in Eudemons Online (魔域), the Company's other flagship game, Heroes Evolved (英魂之刃), has also received an extremely positive feedback from the market. Heroes Evolved pocket version\* (英魂之刃口袋版) of this game was being ranked as the 'top downloaded mobile game' on Tencent Open Platform for five consecutive months with monthly active users (MAU) over 5 million. In addition, Heroes Evolved (英魂之刃) PC version was awarded with the recognition as one of the "top 10 most popular web game" by Tencent in January 2017.

Looking forward, the Group expects the gaming business to continue the momentum in the first quarter of 2017 as the Group launches new games including the second Eudemons Online (魔域) mobile game (in partnership with KingSoft) and Tiger Knight (虎豹骑) Chinese version. The Group will also continue to ramp up monetization for Heroes Evolved pocket version\* (英魂之刃口袋版) to capitalize on its sizable MAU. In addition, the Group is excited by the fact that Tiger Knight (虎豹骑) was included by Sony as part of its renowned "PlayStation® China Hero Project" in March of 2017. This partnership with Sony will bring Tiger Knight (虎豹骑) with access to over 53 million global Sony PlayStation® users, and serves as a compelling validation to the quality of the game itself.

\* For identification purpose only

## **Education Business**

The international education business maintained a steady performance during the traditionally slow season in the first quarter of 2017 with revenue of RMB265.9 million. ClassFlow™ users have reached a record high of 3.0 million, of which about 1.7 million users were teachers. The first quarter of 2017 also marked an important milestone for the Company's education business in expanding its global footprint into the emerging market. The partnership with the City of Moscow was announced earlier this year where the City plans to equip over 14,500 educators throughout Moscow with education technologies.

The focus in China continues to be user acquisition where the Group has seen significant traction. During the first quarter of 2017, the Group continued to expand the coverage in terms of the cooperation with strategic partners and channel partners. In particular, the Group is actively pursuing cooperation with provincial and local education bureaus, where the Group has established or is in the process of finalizing cooperation with education bureaus in multiple provinces where product trainings will be held for teachers. The Group has also signed a strategic partnership agreement with the education bureau of Guangzhou in the first quarter of 2017 as an important first step in promoting the products in the Guangdong province.

Looking forward, as the second quarter of 2017 is well-established as the peak season in the industry, the Company is expecting its education business to record substantial revenue growth in the upcoming quarter. Furthermore, the Company is gearing up to monetize the existing user base with the introduction of a new monetization scheme in the ClassFlow™ community planned for the second half of 2017. The Company also continued to expand into a number of sizable opportunities along the Belt and Road Initiative, which will strengthen the global presence in due course. In China, the traction in gaining users is expected to pick momentum, as the multi-pronged user acquisition strategy begins to bear fruit.

## 2017 First Quarter Financial Highlights

- Revenue was RMB713.4 million, representing a 24.8% increase year-over-year.
- Revenue from the games business was RMB398.5 million, representing 55.9% of the Group's total revenue, registered a 40.3% increase year-over-year.
- Revenue from the education business was RMB297.8 million, representing 41.7% of the Group's total revenue, registered a 6.4% increase year-over-year.
- Gross profit was RMB445.8 million, representing a 28.7% increase year-over-year.
- Core segmental profit<sup>1</sup> from the games business was RMB168.8 million, representing a 78.9% increase year-over-year.
- Core segmental loss<sup>1</sup> from the education business was RMB157.8 million, representing an 18.3% increase year-over-year.
- Non-GAAP<sup>2</sup> operating loss improved to RMB45.7 million compared to RMB111.8 million for the same period last year.
- Loss attributable to owners of the Company improved to RMB45.7 million compared to RMB113.6 million for the same period last year.

## Segmental Financial Highlights

| (RMB'000)                                    | FY2017 Q1       |                  | FY2016 Q4 |           | FY2016 Q1            |                         |
|--|-----------------|------------------|-----------|-----------|----------------------|-------------------------|
|  | Gaming          | Education        | Gaming    | Education | Gaming<br>(Restated) | Education<br>(Restated) |
| Revenue                                      | <b>398,501</b>  | <b>297,771</b>   | 342,711   | 374,029   | 284,067              | 279,942                 |
| Gross profit                                 | <b>377,275</b>  | <b>68,563</b>    | 317,256   | 101,256   | 264,857              | 82,936                  |
| Gross margin                                 | <b>94.7%</b>    | <b>23.0%</b>     | 92.6%     | 27.1%     | 93.2%                | 29.6%                   |
| Core segmental profit<br>(loss) <sup>1</sup> | <b>168,761</b>  | <b>(157,799)</b> | 97,898    | (157,737) | 94,314               | (133,443)               |
| Segmental operating<br>expenses <sup>3</sup> |                 |                  |           |           |                      |                         |
| - Research and<br>development                | <b>(99,527)</b> | <b>(88,960)</b>  | (107,229) | (109,949) | (77,344)             | (87,848)                |
| - Selling and marketing                      | <b>(49,638)</b> | <b>(94,338)</b>  | (44,623)  | (93,710)  | (33,520)             | (87,837)                |
| - Administrative                             | <b>(65,871)</b> | <b>(36,104)</b>  | (73,307)  | (41,584)  | (60,464)             | (38,952)                |

- Note 1: Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with Hong Kong Financial Reporting Standard 8 ("HKFRS 8")) but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of financial instruments, fair value change of convertible preferred shares, impairment of property, plant and equipment and provision for product impairment.
- 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 first quarter of 2017, the fourth quarter of 2016 and the first quarter of 2016:

|  | <b>Three months ended</b> |                    |                    |
|--|---------------------------|--------------------|--------------------|
|  | <b>31 March</b>           | 31 December        | 31 March           |
|  | <b>2017</b>               | 2016               | 2016               |
|  | <i>(Unaudited)</i>        | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
|  | <b>RMB'000</b>            | <b>RMB'000</b>     | <b>RMB'000</b>     |
| Revenue  | <b>713,442</b>            | 740,015            | 571,637            |
| Cost of revenue  | <b><u>(267,639)</u></b>   | <u>(318,982)</u>   | <u>(225,192)</u>   |
| Gross profit   | <b>445,803</b>            | 421,033            | 346,445            |
| Other income and gains   | <b>10,526</b>             | 77,795             | 15,611             |
| Selling and marketing expenses   | <b>(146,038)</b>          | (139,852)          | (122,214)          |
| Administrative expenses  | <b>(172,253)</b>          | (195,168)          | (168,699)          |
| Development costs  | <b>(193,806)</b>          | (220,982)          | (169,112)          |
| Other expenses and losses  | <b>(4,559)</b>            | (27,620)           | (29,657)           |
| Share of losses of associates  | <b>(195)</b>              | (148)              | (743)              |
| Share of loss of a joint venture   | <b>(7)</b>                | —                  | —                  |
| Provision for product impairment   | <b>—</b>                  | <u>(77,774)</u>    | <u>—</u>           |
| Operating loss   | <b>(60,529)</b>           | (162,716)          | (128,369)          |
| Exchange gain (loss) on pledged bank deposit, secured bank borrowings and convertible preferred shares | <b>249</b>                | (11,942)           | 2,192              |
| Net gain on convertible preferred shares   | <b>5,218</b>              | 60,240             | 3,661              |
| Net gain on disposal of held-for-trading investment  | <b>71</b>                 | 253                | —                  |
| Net gain (loss) on held-for-trading investment   | <b>23</b>                 | 8,880              | (3,245)            |
| Finance costs  | <b><u>(2,189)</u></b>     | <u>(1,955)</u>     | <u>(2,737)</u>     |
| Loss before taxation   | <b>(57,157)</b>           | (107,240)          | (128,498)          |
| Taxation   | <b><u>(15,911)</u></b>    | <u>(10,966)</u>    | <u>(6,295)</u>     |
| Loss for the period  | <b><u>(73,068)</u></b>    | <u>(118,206)</u>   | <u>(134,793)</u>   |
| Loss for the period attributable to:   |                           |                    |                    |
| - Owners of the Company  | <b>(45,666)</b>           | (94,413)           | (113,563)          |
| - Non-controlling interests  | <b><u>(27,402)</u></b>    | <u>(23,793)</u>    | <u>(21,230)</u>    |
|  | <b><u>(73,068)</u></b>    | <u>(118,206)</u>   | <u>(134,793)</u>   |

## 2017 First Quarter Gaming Operational Metrics

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

|     | Three months ended |                     |                      |                 |                  |
|-----|--------------------|---------------------|----------------------|-----------------|------------------|
|     | 31 March<br>2017   | 31 December<br>2016 | 30 September<br>2016 | 30 June<br>2016 | 31 March<br>2016 |
| PCU | 736,000            | 740,000             | 738,000              | 790,000         | 763,000          |
| ACU | 310,000            | 336,000             | 349,000              | 354,000         | 338,000          |

*Note:* As at 31 March 2017, our online and mobile games include Conquer Online, Eudemons Online, Heroes Evolved, Zero Online, Way of the Five, Tou Ming Zhuang Online, Tian Yuan, Eudemons Online Pocket Version, Heroes Evolved Pocket Version and other games.

- Monthly average revenue per user for online and mobile games was approximately RMB428, a 55.6% increase year-over-year.
  - ACU for online and mobile games was approximately 310,000, an 8.3% decrease year-over-year.
  - PCU for online and mobile games was approximately 736,000, a 3.5% decrease year-over-year.
- (2) Active paying accounts was approximately 749,000, a 39.2% increase 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 ended 31 March 2017 together with the comparative figures in 2016 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2017

|   |       | Three months ended |             |
|---|-------|--------------------|-------------|
|   |       | 31 March           |             |
|   |       | 2017               | 2016        |
|   |       | (Unaudited)        | (Unaudited) |
|   | NOTES | RMB'000            | RMB'000     |
| Revenue   | 4     | <b>713,442</b>     | 571,637     |
| Cost of revenue   |       | <b>(267,639)</b>   | (225,192)   |
| Gross profit  |       | <b>445,803</b>     | 346,445     |
| Other income and gains  | 4     | <b>10,526</b>      | 15,611      |
| Selling and marketing expenses  |       | <b>(146,038)</b>   | (122,214)   |
| Administrative expenses   |       | <b>(172,253)</b>   | (168,699)   |
| Development costs   |       | <b>(193,806)</b>   | (169,112)   |
| Other expenses and losses   |       | <b>(4,559)</b>     | (29,657)    |
| Share of losses of associates   |       | <b>(195)</b>       | (743)       |
| Share of loss of a joint venture  |       | <b>(7)</b>         | —           |
| Operating loss  |       | <b>(60,529)</b>    | (128,369)   |
| Exchange gain on pledged bank deposit,<br>secured bank borrowings and convertible<br>preferred shares |       | <b>249</b>         | 2,192       |
| Net gain on convertible preferred shares  |       | <b>5,218</b>       | 3,661       |
| Net gain on disposal of held-for-trading<br>investment  |       | <b>71</b>          | —           |
| Net gain (loss) on held-for-trading<br>investment   |       | <b>23</b>          | (3,245)     |
| Finance costs   |       | <b>(2,189)</b>     | (2,737)     |
| Loss before taxation  |       | <b>(57,157)</b>    | (128,498)   |
| Taxation  | 6     | <b>(15,911)</b>    | (6,295)     |
| Loss for the period   |       | <b>(73,068)</b>    | (134,793)   |



|  | <b>Three months ended</b> |                      |
|--|---------------------------|----------------------|
|  | <b>31 March</b>           |                      |
|  | <b>2017</b>               | <b>2016</b>          |
|  | <i>(Unaudited)</i>        | <i>(Unaudited)</i>   |
| <i>NOTE</i>  | <b>RMB'000</b>            | <b>RMB'000</b>       |
| Other comprehensive income (expense) for the period, net of income tax |                           |                      |
| Items that may be reclassified subsequently to profit or loss:         |                           |                      |
| Exchange differences arising on translation of foreign operations      | <b>3,435</b>              | (10,084)             |
| Fair value gain on available-for-sale investment                       | <u><b>388</b></u>         | <u>—</u>             |
|  | <u><b>3,823</b></u>       | <u>(10,084)</u>      |
| <br>   |                           |                      |
| Total comprehensive expense for the period                             | <u><b>(69,245)</b></u>    | <u>(144,877)</u>     |
| <br>   |                           |                      |
| Loss for the period attributable to:                                   |                           |                      |
| - Owners of the Company  | <b>(45,666)</b>           | (113,563)            |
| - Non-controlling interests  | <u><b>(27,402)</b></u>    | <u>(21,230)</u>      |
|  | <u><b>(73,068)</b></u>    | <u>(134,793)</u>     |
| <br>   |                           |                      |
| Total comprehensive expense attributable to:                           |                           |                      |
| - Owners of the Company  | <b>(42,425)</b>           | (122,340)            |
| - Non-controlling interests  | <u><b>(26,820)</b></u>    | <u>(22,537)</u>      |
|  | <u><b>(69,245)</b></u>    | <u>(144,877)</u>     |
|  | <b>RMB cents</b>          | <b>RMB cents</b>     |
| <br>   |                           |                      |
| <b>Loss per share</b>  | <b>8</b>                  |                      |
| - Basic  |                           | (22.98)              |
| - Diluted  |                           | <u>(22.98)</u>       |
|  |                           | <u><b>(9.20)</b></u> |
|  |                           | <u><b>(9.20)</b></u> |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2017**

|   |              | <b>31 March<br/>2017</b> | 31 December<br>2016     |
|---|--------------|--------------------------|-------------------------|
|   |              | <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                                     | 9            | <b>1,323,765</b>         | 1,284,494               |
| Prepaid lease payments  |              | <b>507,529</b>           | 509,018                 |
| Investment properties   |              | <b>57,529</b>            | 57,964                  |
| Intangible assets   |              | <b>713,049</b>           | 722,498                 |
| Interests in associates   |              | <b>16,588</b>            | 16,783                  |
| Interest in a joint venture                                       |              | <b>17,993</b>            | —                       |
| Available-for-sale investments                                    |              | <b>28,632</b>            | 17,883                  |
| Loan receivables  |              | <b>20,384</b>            | 20,477                  |
| Trade receivables   | 10           | <b>11,490</b>            | 11,490                  |
| Deposits made for acquisition of property,<br>plant and equipment |              | <b>11,017</b>            | 14,585                  |
| Goodwill  |              | <b>340,760</b>           | 338,237                 |
| Deferred tax assets   |              | <b>3,464</b>             | 3,445                   |
|   |              | <b><u>3,052,200</u></b>  | <b><u>2,996,874</u></b> |
| <b>Current assets</b>   |              |                          |                         |
| Properties under development                                      |              | <b>56,161</b>            | 55,429                  |
| Inventories   |              | <b>87,996</b>            | 125,285                 |
| Prepaid lease payments  |              | <b>6,003</b>             | 6,003                   |
| Loan receivables  |              | <b>12,185</b>            | 13,712                  |
| Trade receivables   | 10           | <b>367,349</b>           | 351,693                 |
| Amounts due from customers for contract<br>work                   |              | <b>5,402</b>             | 10,640                  |
| Other receivables, prepayments and deposits                       |              | <b>127,874</b>           | 121,564                 |
| Amounts due from related companies                                |              | <b>1,735</b>             | 1,704                   |
| Amounts due from associates                                       |              | <b>7,599</b>             | 8,561                   |
| Tax recoverable   |              | <b>393</b>               | 3,281                   |
| Held-for-trading investment                                       |              | <b>83,022</b>            | 151,783                 |
| Pledged bank deposit  |              | <b>408</b>               | 411                     |
| Bank deposit  |              | <b>—</b>                 | 55,496                  |
| Bank balances and cash  |              | <b>800,375</b>           | 876,532                 |
|   |              | <b><u>1,556,502</u></b>  | <b><u>1,782,094</u></b> |

|  |              | <b>31 March<br/>2017<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2016<br>(Audited)<br>RMB'000 |
|--|--------------|--|---|
|  | <i>NOTES</i> |  |   |
| <b>Current liabilities</b>                   |              |  |   |
| Trade and other payables                     | 11           | 474,079  | 531,757                                     |
| Amounts due to customers for contract work   |              | 3,067  | 988   |
| Provisions                                   |              | 40,270   | 45,876                                      |
| Deferred income                              |              | 88,965   | 84,567                                      |
| Amount due to a related company              |              | 7  | 978   |
| Amounts due to associates                    |              | 1,452  | 4,558                                       |
| Convertible preferred shares                 | 12           | 98,318   | 104,101                                     |
| Secured bank borrowings                      |              | —  | 29,000                                      |
| Income tax payable                           |              | <u>27,194</u>  | <u>18,364</u>                               |
|  |              | <u>733,352</u>                                       | <u>820,189</u>                              |
| <b>Net current assets</b>                    |              | <u>823,150</u>                                       | <u>961,905</u>                              |
| <b>Total assets less current liabilities</b> |              | <u>3,875,350</u>                                     | <u>3,958,779</u>                            |
| <b>Non-current liabilities</b>               |              |  |   |
| Other payables                               |              | 5,582  | 5,582                                       |
| Provisions                                   |              | 1,722  | 1,702                                       |
| Deferred tax liabilities                     |              | <u>122,270</u>                                       | <u>123,218</u>                              |
|  |              | <u>129,574</u>                                       | <u>130,502</u>                              |
| <b>Net assets</b>                            |              | <u>3,745,776</u>                                     | <u>3,828,277</u>                            |
| <b>Capital and reserves</b>                  |              |  |   |
| Share capital                                |              | 36,481   | 36,571                                      |
| Share premium and reserves                   |              | <u>3,755,086</u>                                     | <u>3,817,258</u>                            |
| Equity attributable to owners of the Company |              | 3,791,567  | 3,853,829                                   |
| Non-controlling interests                    |              | <u>(45,791)</u>                                      | <u>(25,552)</u>                             |
|  |              | <u>3,745,776</u>                                     | <u>3,828,277</u>                            |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2017

|  | 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 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  | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                                     | (113,563)        | (113,563) | (21,230)                  | (134,793)    |
| Other comprehensive expense for the period                                 | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | (8,777)             | —                                     | —                | (8,777)   | (1,307)                   | (10,084)     |
| Total comprehensive expense for the period                                 | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | (8,777)             | —                                     | (113,563)        | (122,340) | (22,537)                  | (144,877)    |
| Repurchase and cancellation of shares                                      | (357)                                 | (78,585)      | 357                        | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                                     | (357)            | (78,942)  | —                         | (78,942)     |
| Shares issued upon exercise of share options                               | 9                                     | 793           | —                          | —             | —               | —                  | —                | —                   | —                      | (233)                                     | —                   | —                                     | —                | 569       | —                         | 569          |
| Reversal of equity-settled share-based payments                            | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | (477)                                     | —                   | —                                     | —                | (477)     | —                         | (477)        |
| Awarded shares vested to employees   | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | 538                    | (1,046)                                   | —                   | —                                     | 508              | —         | —                         | —            |
| 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 interests of a subsidiary                 | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                                     | —                | —         | (1,115)                   | (1,115)      |
|  | (348)                                 | (77,792)      | 357                        | (887)         | —               | —                  | —                | —                   | 538                    | (1,756)                                   | —                   | —                                     | 151              | (79,737)  | (353)                     | (80,090)     |
| At 31 March 2016 (unaudited)   | 36,378                                | 809,548       | 6,066                      | 38,577        | 10,035          | 260,714            | 49,767           | 22,449              | (2,715)                | 24,837                                    | (56,795)            | —                                     | 2,892,908        | 4,091,769 | (13,099)                  | 4,078,670    |
| At 1 January 2017  | 36,571                                | 830,126       | 6,155                      | 28,170        | 10,035          | 292,864            | 44,374           | 22,449              | (2,120)                | 20,357                                    | (118,365)           | (11,302)                              | 2,694,515        | 3,853,829 | (25,552)                  | 3,828,277    |
| Loss for the period  | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                                     | (45,666)         | (45,666)  | (27,402)                  | (73,068)     |
| Other comprehensive income for the period                                  | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | 2,853               | 388                                   | —                | 3,241     | 582                       | 3,823        |
| Total comprehensive income (expense) for the period                        | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | 2,853               | 388                                   | (45,666)         | (42,425)  | (26,820)                  | (69,245)     |
| Repurchase and cancellation of shares                                      | (91)                                  | (23,641)      | 91                         | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                                     | (91)             | (23,732)  | —                         | (23,732)     |
| Acquisition of additional equity interests from a non-controlling interest | —                                     | —             | —                          | (285)         | —               | —                  | —                | —                   | —                      | —   | —                   | —                                     | —                | (285)     | (7)                       | (292)        |
| Shares issued upon exercise of share options                               | 1                                     | 163           | —                          | —             | —               | —                  | —                | —                   | —                      | (41)                                      | —                   | —                                     | —                | 123       | —                         | 123          |
| Contribution from non-controlling interests of subsidiaries                | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | —   | —                   | —                                     | —                | —         | 8,042                     | 8,042        |
| Recognition of equity-settled share-based payments                         | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | —                      | 2,603                                     | —                   | —                                     | —                | 2,603     | —                         | 2,603        |
| Awarded shares vested to employees   | —                                     | —             | —                          | —             | —               | —                  | —                | —                   | 993                    | (3,172)                                   | —                   | —                                     | 2,179            | —         | —                         | —            |
| Deemed disposal of subsidiaries to non-controlling shareholders            | —                                     | —             | —                          | 1,454         | —               | —                  | —                | —                   | —                      | —   | —                   | —                                     | —                | 1,454     | (1,454)                   | —            |
|  | (90)                                  | (23,478)      | 91                         | 1,169         | —               | —                  | —                | —                   | 993                    | (610)                                     | —                   | —                                     | 2,088            | (19,837)  | 6,581                     | (13,256)     |
| At 31 March 2017 (unaudited)   | 36,481                                | 806,648       | 6,246                      | 29,339        | 10,035          | 292,864            | 44,374           | 22,449              | (1,127)                | 19,747                                    | (115,512)           | (10,914)                              | 2,650,937        | 3,791,567 | (45,791)                  | 3,745,776    |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED 31 MARCH 2017**

|  | <b>Three months ended</b> |                         |
|--|---------------------------|-------------------------|
|  | <b>31 March</b>           |                         |
|  | <b>2017</b>               | <b>2016</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>(44,421)</u></b>    | <b><u>(320,949)</u></b> |
| <b>INVESTING ACTIVITIES</b>  |                           |                         |
| Investment in a joint venture  | (18,000)                  | —                       |
| Proceeds from disposal of held-for-trading investment  | 68,855                    | —                       |
| Purchase of property, plant and equipment  | (75,076)                  | (87,645)                |
| Purchase of prepaid lease payments   | —                         | (5,850)                 |
| Purchase of intangible assets  | (3,823)                   | (7,903)                 |
| Payment for deposits of property, plant and equipment  | (962)                     | (4,421)                 |
| Payment for deposit of available-for-sale investment   | —                         | (24,004)                |
| Placement of bank deposits   | —                         | (423,528)               |
| Purchases of available-for-sale investment   | (10,361)                  | —                       |
| Withdrawal of bank deposits  | 54,858                    | 660,236                 |
| Other investing activities   | 3,938                     | 19,688                  |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>  | <b><u>19,429</u></b>      | <b><u>126,573</u></b>   |
| <b>FINANCING ACTIVITIES</b>  |                           |                         |
| Repayment of bank borrowings   | (368,811)                 | (399,075)               |
| Payment for repurchase of shares   | (23,732)                  | (78,942)                |
| New bank borrowings raised   | 338,071                   | 444,531                 |
| Contribution from non-controlling shareholders   | 5,900                     | —                       |
| Other financing activities   | 123                       | (599)                   |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>   | <b><u>(48,449)</u></b>    | <b><u>(34,085)</u></b>  |
| <b>NET DECREASE IN CASH AND CASH<br/>EQUIVALENTS</b>   | <b>(73,441)</b>           | <b>(228,461)</b>        |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING<br/>OF THE PERIOD</b>                                      | <b>876,532</b>            | <b>1,126,957</b>        |
| <b>EFFECT OF FOREIGN EXCHANGE RATE<br/>CHANGES</b>   | <b><u>(2,716)</u></b>     | <b><u>19,484</u></b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE<br/>PERIOD, REPRESENTED BY BANK BALANCES<br/>AND CASH</b> | <b><u>800,375</u></b>     | <b><u>917,980</u></b>   |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED 31 MARCH 2017**

**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.

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

**3. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments 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 three months ended 31 March 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

**Interest in a joint venture**

The results and assets and liabilities of a joint venture are incorporated in these condensed consolidated financial statements using the equity method of accounting. The financial statements of the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised

in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

|  | <b>Three months ended</b> |                       |
|--|---------------------------|-----------------------|
|  | <b>31 March</b>           |                       |
|  | <b>2017</b>               | <b>2016</b>           |
|  | <i>(Unaudited)</i>        | <i>(Unaudited)</i>    |
|  | <b>RMB'000</b>            | <b>RMB'000</b>        |
| <b>Revenue</b>   |                           |                       |
| Online game revenue                                    | <b>398,501</b>            | 284,067               |
| Education revenue                                      | <b>297,771</b>            | 279,942               |
| Mobile solution, products and marketing revenue        | <b>17,170</b>             | 7,628                 |
|  | <b><u>713,442</u></b>     | <b><u>571,637</u></b> |
| <b>Other income and gains</b>                          |                           |                       |
| Government grants ( <i>Note</i> )                      | <b>4,815</b>              | 3,663                 |
| Interest income  | <b>2,049</b>              | 7,728                 |
| Game implementation income                             | <b>2,124</b>              | 505                   |
| Gain on disposal of assets classified as held for sale | <b>—</b>                  | 1,601                 |
| Rental income, net of negligible outgoing expenses     | <b>1,008</b>              | 1,399                 |
| Gain on disposal of property, plant and equipment      | <b>8</b>                  | —                     |
| Others   | <b>522</b>                | 715                   |
|  | <b><u>10,526</u></b>      | <b><u>15,611</u></b>  |

*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 goods or services delivered or provided.

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

### Three months ended 31 March 2017

|   | <b>Online game<br/>(Unaudited)<br/>RMB’000</b> | <b>Education<br/>(Unaudited)<br/>RMB’000</b> | <b>Mobile<br/>solution,<br/>products<br/>and<br/>marketing<br/>(Unaudited)<br/>RMB’000</b> | <b>Total<br/>(Unaudited)<br/>RMB’000</b> |
|---|--|--|--|--|
| Segment revenue                         | <u>398,501</u>                                 | <u>297,771</u>                               | <u>17,170</u>  | <u>713,442</u>                           |
| Segment profit (loss)                   | <u>187,716</u>                                 | <u>(166,722)</u>                             | <u>(6,759)</u>   | 14,235                                   |
| Unallocated income and gains            |  |  |  | 2,279                                    |
| Unallocated expenses and losses         |  |  |  | (73,694)                                 |
| Net gain on held-for-trading investment |  |  |  | <u>23</u>                                |
| Loss before taxation                    |  |  |  | <u>(57,157)</u>                          |

### Three months ended 31 March 2016

|   | <b>Online game<br/>(Unaudited)<br/>RMB’000</b> | <b>Education<br/>(Unaudited)<br/>RMB’000</b> | <b>Mobile<br/>solution<br/>and<br/>marketing<br/>(Unaudited)<br/>RMB’000</b> | <b>Total<br/>(Unaudited)<br/>RMB’000</b> |
|---|--|--|--|--|
| Segment revenue                         | <u>284,067</u>                                 | <u>279,942</u>                               | <u>7,628</u>   | <u>571,637</u>                           |
| Segment profit (loss)                   | <u>95,985</u>                                  | <u>(127,790)</u>                             | <u>(7,935)</u>   | (39,740)                                 |
| Unallocated income and gains            |  |  |  | 7,583                                    |
| Unallocated expenses and losses         |  |  |  | (93,096)                                 |
| Net loss on held-for-trading investment |  |  |  | <u>(3,245)</u>                           |
| Loss before taxation                    |  |  |  | <u>(128,498)</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 investment, net 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>31 March</b>                | 31 December             |
|---|--------------------------------|-------------------------|
|   | <b>2017</b>                    | 2016                    |
|   | <i>(Unaudited)</i>             | <i>(Audited)</i>        |
|   | <b>RMB'000</b>                 | <b>RMB'000</b>          |
| Online game                             | <b>2,201,494</b>               | 2,191,394               |
| Education                               | <b>1,702,178</b>               | 1,802,731               |
| Mobile solution, products and marketing | <b><u>193,902</u></b>          | <u>195,575</u>          |
| Total segment assets                    | <b>4,097,574</b>               | 4,189,700               |
| Unallocated                             | <b><u>511,128</u></b>          | <u>589,268</u>          |
|   | <b><u><u>4,608,702</u></u></b> | <u><u>4,778,968</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, properties under development, certain prepaid lease payments and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

## 6. TAXATION

|                                       | <b>Three months ended</b>   |                     |
|---------------------------------------|-----------------------------|---------------------|
|                                       | <b>31 March</b>             |                     |
|                                       | <b>2017</b>                 | 2016                |
|                                       | <i>(Unaudited)</i>          | <i>(Unaudited)</i>  |
|                                       | <b>RMB'000</b>              | <b>RMB'000</b>      |
| The tax charge comprises:             |                             |                     |
| Hong Kong Profits Tax                 | <b>2,005</b>                | 2,388               |
| The PRC Enterprise Income Tax ("EIT") | <b>16,077</b>               | 7,110               |
| Taxation in other jurisdiction        | <b>119</b>                  | 143                 |
| Deferred tax                          | <b><u>(2,290)</u></b>       | <u>(3,346)</u>      |
|                                       | <b><u><u>15,911</u></u></b> | <u><u>6,295</u></u> |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months ended 31 March 2017 and 31 March 2016.

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 ended 31 March 2017 and 31 March 2016.

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

## 7. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend during the three months ended 31 March 2017 and 31 March 2016.

## 8. 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>Three months ended</b> |                         |
|--|---------------------------|-------------------------|
|  | <b>31 March</b>           |                         |
|  | <b>2017</b>               | <b>2016</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>(45,666)</b></u>    | <u><b>(113,563)</b></u> |
|  |                           |                         |
|  | <b>Number of shares</b>   |                         |
|  | <b>Three months ended</b> |                         |
|  | <b>31 March</b>           |                         |
|  | <b>2017</b>               | <b>2016</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) | <u><b>496,335</b></u>     | <u><b>494,155</b></u>   |

The calculation of diluted loss per share for the three months ended 31 March 2017 and 31 March 2016 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.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the three-month period ended 31 March 2017, the deposits of approximately RMB4,530,000 (three-month period ended 31 March 2016: RMB1,511,000) were transferred to property, plant and equipment and the Group spent approximately RMB75,076,000 (three-month period ended 31 March 2016: RMB87,645,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB13,147,000 (three-month period ended 31 March 2016: RMB19,816,000) in plant and equipment and RMB51,759,000 (three-month period ended 31 March 2016: RMB56,746,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

## 10. 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>31 March<br/>2017<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2016<br>(Audited)<br>RMB'000 |
|--|--|---|
| Trade debtors                          |  |   |
| 0 - 30 days                            | <b>224,173</b>                                       | 219,717                                     |
| 31 - 60 days                           | <b>69,296</b>  | 72,091                                      |
| 61 - 90 days                           | <b>27,421</b>  | 26,646                                      |
| Over 90 days                           | <b>38,880</b>  | 25,980                                      |
| Receivables with extended credit terms |  |   |
| Due within one year                    | <b>7,579</b>   | 7,259                                       |
| Due after one year                     | <b>11,490</b>  | 11,490                                      |
|  | <b><u>378,839</u></b>                                | <u>363,183</u>                              |

## 11. TRADE AND OTHER PAYABLES

|   | <b>31 March</b>       | 31 December      |
|---|-----------------------|------------------|
|   | <b>2017</b>           | 2016             |
|   | <i>(Unaudited)</i>    | <i>(Audited)</i> |
|   | <i>RMB'000</i>        | <i>RMB'000</i>   |
| Trade payables                            | <b>198,634</b>        | 215,844          |
| Accrued staff costs                       | <b>127,038</b>        | 161,940          |
| Receipt in advance                        | <b>34,657</b>         | 32,179           |
| Other tax payables                        | <b>13,050</b>         | 16,622           |
| Other payables and accruals <i>(Note)</i> | <b><u>100,700</u></b> | <u>105,172</u>   |
|   | <b><u>474,079</u></b> | <u>531,757</u>   |

*Note:* 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>31 March</b>       | 31 December      |
|----------------|-----------------------|------------------|
|                | <b>2017</b>           | 2016             |
|                | <i>(Unaudited)</i>    | <i>(Audited)</i> |
|                | <i>RMB'000</i>        | <i>RMB'000</i>   |
| 0 - 90 days    | <b>177,549</b>        | 165,030          |
| 91 - 180 days  | <b>18,375</b>         | 49,629           |
| 181 - 365 days | <b>1,510</b>          | 141              |
| Over 365 days  | <b><u>1,200</u></b>   | <u>1,044</u>     |
|                | <b><u>198,634</u></b> | <u>215,844</u>   |

## 12. 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 United States dollar (“USD”) 0.001 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 13.6% 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, executive director and beneficial owner of the Company has 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>31 March<br/>2017<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2016<br>(Audited)<br>RMB'000 |
|---|--|---|
| At the beginning of the period                | <b>104,101</b>                                       | 278,499                                     |
| Payment for repurchase of shares by the Group | —  | (53)  |
| Fair value change                             | <b>(5,218)</b>                                       | (193,357)                                   |
| Exchange adjustments                          | <u><b>(565)</b></u>                                  | <u>19,012</u>                               |
| At the end of the period                      | <u><b>98,318</b></u>                                 | <u>104,101</u>                              |

## 13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2017, we had a pledged bank deposit and bank balances and cash of approximately RMB800.8 million (31 December 2016: RMB932.4 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was zero (31 December 2016: 0.01). As at 31 March 2017, no bank borrowings (31 December 2016: RMB29.0 million with floating-rate and share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries) of the Group were made.

As at 31 March 2017, the Group had net current assets of approximately RMB823.2 million as compared with approximately RMB961.9 million as at 31 December 2016.

## STAFF INFORMATION

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

|   | <b>At<br/>31 March<br/>2017</b> | At<br>31 December<br>2016 | At<br>31 March<br>2016 |
|---|---------------------------------|---------------------------|------------------------|
| Research and development                          | <b>3,493</b>                    | 3,468                     | 2,991                  |
| Selling and marketing                             | <b>1,290</b>                    | 1,221                     | 1,091                  |
| Accounting, finance and general<br>administration | <b>857</b>                      | 1,008                     | 917                    |
| Production  | <u><b>261</b></u>               | <u>244</u>                | <u>173</u>             |
| Total   | <u><b>5,901</b></u>             | <u>5,941</u>              | <u>5,172</u>           |

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

As at 31 March 2017, 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<br>(Note 1) | Approximate percentage of shareholding |
|----------------------------------|--------------------|---|---|--|
| Liu Dejian<br>(Note 2)           | The Company        | Beneficial owner, through a controlled corporation and beneficiary of a trust | 254,138,457 (L)   | 51.36%                                 |
| Liu Dejian<br>(Note 3)           | NetDragon (Fujian) | Beneficial owner  | RMB299,880,000 (L)  | 99.96%                                 |
| Leung Lim Kin, Simon<br>(Note 4) | The Company        | Beneficial owner  | 200,000 (L)   | 0.04%                                  |
| Liu Luyuan<br>(Note 2)           | The Company        | Beneficial owner and beneficiary of certain trust                             | 255,822,457 (L)   | 51.70%                                 |
| Liu Luyuan<br>(Note 3)           | NetDragon (Fujian) | Beneficial owner  | RMB299,880,000 (L)  | 99.96%                                 |



| <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><br><i>(Note 1)</i> | <b>Approximate percentage of shareholding</b> |
|--|------------------------|--|---|---|
| Zheng Hui<br><i>(Note 2)</i>             | The Company            | Beneficial owner and through controlled corporations | 254,138,457 (L)   | 51.36%  |
| Zheng Hui<br><i>(Note 3)</i>             | NetDragon (Fujian)     | Beneficial owner                                     | RMB299,880,000 (L)  | 99.96%  |
| Chen Hongzhan<br><i>(Note 5)</i>         | The Company            | Beneficial owner and beneficiary of certain trust    | 11,197,019 (L)  | 2.26%   |
| Chao Guowei, Charles<br><i>(Note 6)</i>  | The Company            | Beneficial owner                                     | 918,000 (L)   | 0.19%   |
| Lee Kwan Hung<br><i>(Note 7)</i>         | The Company            | Beneficial owner                                     | 1,102,519 (L)   | 0.22%   |
| Liu Sai Keung, Thomas<br><i>(Note 8)</i> | The Company            | Beneficial owner                                     | 975,019 (L)   | 0.20%   |

*Notes:*

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 38.61% 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 5.70% 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 100.00% of the issued share capital of Fitter Property Inc., which in turn is interested in 3.84% 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 2.81% 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 51.36% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, a trust in favour of Liu Dejian, Fitter Property Inc., Eagle World International Inc. and their respective shares held as beneficial owner in each of their personal capacities.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 3.23%, 0.07% and 96.66%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“NetDragon (Fujian)”). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 99.96% of the registered capital of NetDragon (Fujian).
4. Leung Lim Kin, Simon is interested in 0.04% of the issued voting shares of the Company which is represented by beneficial interest of 200,000 Shares.
5. Chen Hongzhan is interested in 2.26% of the issued voting shares of the Company which is represented by personal interest of 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 0.19% of the issued voting shares of the Company which is represented by personal interest of 579,500 shares and the rest being the underlying shares of interest of 338,500 shares options granted by the Company.
7. Lee Kwan Hung is interested in 0.22% of the issued voting shares of the Company which is represented by personal interest of 684,519 shares and the rest being underlying shares of interest of 418,000 share options granted by the Company.
8. Liu Sai Keung, Thomas is interested in 0.20% of the issued voting shares of the Company which is represented by personal interest of 257,019 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 March 2017, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they

were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 31 March 2017, 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:

| <b>Name of Shareholder</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><br><i>(Note 1)</i> | <b>Approximate percentage of shareholding</b> |
|---|------------------------|---|---|---|
| DJM Holding Ltd.                          | The Company            | Beneficial owner                                    | 191,078,100 (L)   | 38.61%  |
| IDG Group <i>(Note 2)</i>                 | The Company            | Beneficial owner                                    | 78,333,320 (L)  | 15.83%  |
| Ho Chi Sing <i>(Note 2)</i>               | The Company            | Through controlled corporations                     | 78,333,320 (L)  | 15.83%  |
| Zhou Quan <i>(Note 2)</i>                 | The Company            | Through controlled corporations                     | 73,490,095 (L)  | 14.85%  |
| First Elite Group Limited <i>(Note 3)</i> | The Company            | Beneficial owner and through controlled corporation | 26,541,819 (L)  | 5.36%   |
| Jardine PTC Limited <i>(Note 3)</i>       | The Company            | Trustee   | 26,541,819 (L)  | 5.36%   |

*Notes:*

1. The letter “L” denotes the shareholder’s long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.20%, 10.51%, 2.15% 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 197,019 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 31 March 2017.

## SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the “Main Board Share Option Scheme”) to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 31 March 2017 are as follows:

| Grantee                                    | Date of grant | Exercise Price<br>HKD | As at            | Number of share options |               |          | As at            |
|--|---------------|-----------------------|------------------|-------------------------|---------------|----------|------------------|
|  |               |                       | 1 January 2017   | Granted                 | Exercised     | Lapsed   | 31 March 2017    |
| <b>Executive Directors</b>                 |               |                       |                  |                         |               |          |                  |
| Liu Luyuan                                 | 07.12.2009    | 4.33                  | 1,400,000        | —                       | —             | —        | 1,400,000        |
|  | 22.07.2011    | 4.60                  | 284,000          | —                       | —             | —        | 284,000          |
| <b>Independent non-executive Directors</b> |               |                       |                  |                         |               |          |                  |
| Chao Guowei, Charles                       | 04.12.2013    | 15.72                 | 238,500          | —                       | —             | —        | 238,500          |
|  | 31.03.2017    | 23.65                 | —                | 100,000                 | —             | —        | 100,000          |
| Lee Kwan Hung                              | 04.12.2013    | 15.72                 | 318,000          | —                       | —             | —        | 318,000          |
|  | 31.03.2017    | 23.65                 | —                | 100,000                 | —             | —        | 100,000          |
| Liu Sai Keung, Thomas                      | 23.04.2012    | 5.74                  | 300,000          | —                       | —             | —        | 300,000          |
|  | 04.12.2013    | 15.72                 | 318,000          | —                       | —             | —        | 318,000          |
|  | 31.03.2017    | 23.65                 | —                | 100,000                 | —             | —        | 100,000          |
| <b>Others</b>                              |               |                       |                  |                         |               |          |                  |
| Employees                                  | 28.04.2011    | 4.80                  | 497,452          | —                       | 2,128         | —        | 495,324          |
|  | 22.07.2011    | 4.60                  | 58,950           | —                       | —             | —        | 58,950           |
|  | 23.04.2012    | 5.74                  | 474,294          | —                       | —             | —        | 474,294          |
|  | 06.07.2012    | 6.53                  | 246,326          | —                       | —             | —        | 246,326          |
|  | 12.09.2012    | 7.20                  | 50,250           | —                       | —             | —        | 50,250           |
|  | 16.01.2013    | 11.164                | 370,250          | —                       | 11,500        | —        | 358,750          |
|  | 25.04.2014    | 14.66                 | 278,000          | —                       | —             | —        | 278,000          |
|  | 11.05.2015    | 27.75                 | <u>214,000</u>   | —                       | —             | —        | <u>214,000</u>   |
| Total                                      |               |                       | <u>5,048,022</u> | <u>300,000</u>          | <u>13,628</u> | <u>—</u> | <u>5,334,394</u> |

### Notes:

- On 31 March 2017, 300,000 share options were granted to the Directors of the Company under the Main Board Share Option Scheme. The closing price of the Company’s shares on 31 March 2017 (the trading day on the grant of the share options) was HKD23.65.
- During the period under review, no share options were exercised by Directors of the Company.

## SHARE AWARD SCHEME

### *The Company*

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

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

On 31 March 2017, 100,000 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company. 109,586 awarded shares granted to a number of selected participants were outstanding as at 31 March 2017. 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 31 March 2017, 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 31 March 2017, 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 87.28% to approximately 78.96%.

As at 31 March 2017, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

## **MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the period ended 31 March 2017.

## **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 unaudited consolidated financial statements for the period ended 31 March 2017 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the three months ended 31 March 2017, the Company bought back a total of 729,000 shares on the Stock Exchange at an aggregate consideration of HKD16,168,975 before expenses.

Details of the shares buy-backs are as follows:

| <b>Month of shares<br/>bought back</b> | <b>Number of<br/>ordinary<br/>shares bought<br/>back</b> | <b>Price per share</b> |                       | <b>Aggregate<br/>consideration<br/>paid<br/>HKD</b> |
|--|--|------------------------|-----------------------|---|
|  |  | <b>Highest<br/>HKD</b> | <b>Lowest<br/>HKD</b> |   |
| January 2017                           | <u>729,000</u>   | <u>22.80</u>           | <u>21.35</u>          | <u>16,168,975</u>                                   |

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

Hong Kong, 13 June 2017

*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.*