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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) delivered strong results for the second quarter in 2017, achieving record-high revenue of approximately RMB1.1 billion for the quarter. The games business bought robust growth as the Group executed the strategy to leverage the successful IP. The education business also performed exceptionally well as a result of fast growing adoption of interactive classroom technologies and the market leadership position in both developed and emerging markets where the Group in various major markets achieved number one in market share.

The games business continued its momentum during the second quarter of 2017, as evidenced by the popularity of the flagship games Eudemons Online (魔域) and Heroes Evolved (英魂之刃). In addition, mobile versions of games continued to be a major growth driver for the business with revenue increasing 53.0% year-over-year.

The education business delivered strong performance across the board in the second quarter of 2017. While developed markets continue to grow in size, which represents the majority share of the revenue composition, the Group is excited to see traction in emerging markets where as a global market leader in learning technologies, the Group has become the leading candidate in these markets to capitalize on many sizable revenue opportunities. The Group is also on track with the online monetization strategy and the Group expects to launch the Social Commerce platform by the end of 2017. In China, the signed sales order in the second quarter of 2017 is over five times higher than the same quarter last year as the Group begins to win broad based adoption of the products by schools and teachers. The Group has also

scaled to an installed user base of over 450,000 teachers for the flagship software 101 Education PPT to date including 220,000 new teachers in the second quarter of 2017 alone. The Group is expecting an acceleration of user acquisition and user engagement as the new academic year starts in September 2017.

The Group achieved a turnaround in its profitability, with profit attributable to owners of the Company at RMB71.4 million for the second quarter of 2017 and RMB25.8 million for the first half of 2017. Lastly, having JumpStart Games, Inc. (“JumpStart”) join the Company. With this strategic acquisition, the Group is looking forward to capitalising on the unique opportunities in IPs and B2C user acquisition.

Games Business

The Company’s games business continued to achieve a robust performance in the second quarter of 2017, with revenue at RMB403.9 million, a 36.1% increase year-over-year, and core segmental profit at RMB165.3 million, a 66.4% increase year-over-year. This is the third consecutive quarter that the Company has registered over 20% year-over-year revenue growth for its games business. In addition, ARPU and APA strengthened with a year-over-year increase of 49.1% and 4.8% respectively. The Group has also seen a strong increase in the Monthly Active Users (“MAU”) and Daily Active Users (“DAU”) of 44.9% and 16.8%, respectively, in the second quarter of 2017 on a year-over-year basis.

Eudemons Online (魔域) continues to perform exceptionally well. The newly launched expansion pack for Eudemons Online (魔域) received excellent feedback in the market with pre-paid monthly income reaching over RMB100 million in May 2017 and June 2017. The continued strong performance of Eudemons Online (魔域) and Eudemons Online pocket version* (魔域口袋版) over the last several quarters demonstrates the effectiveness of the user engagement strategy that has raised the revenue level of this IP to a new level. Not only is this sustainable, but it is expected to increase significantly as more new games are being developed under the Eudemons brand. Heroes Evolved (英魂之刃), the other flagship IP, also continued to receive very positive recognition by the players. Heroes Evolved pocket version* (英魂之刃口袋版) is ranked as the ‘top three downloaded mobile game’ on Tencent Open Platform for seven consecutive months with over six million Monthly Active Users (MAU).

Looking forward, the Group is excited by the strong pipeline of new game launches in the second half of 2017 including the new Eudemons mobile game developed in partnership with Kingsoft and Tiger Knight (虎豹骑) (which was officially launched in August 2017 on the Tencent Wgame Platform in China). Heroes Evolved pocket version* (英魂之刃口袋版) is also expected to start ramping up revenue in the third quarter of 2017 as the Group moves to capitalize on the significant user base of this game that developed since its official launch in December 2016.

* For identification purpose only

Education Business

The international education business delivered a remarkable second quarter of 2017 with revenue at RMB590.1 million, representing a 30.0% increase year-over-year over an already strong second quarter of 2016. This is on the back of global market share gains across major markets including the US, UK, Eastern & Central Europe and Central Asia. The Group also seeing a fast-growing addressable market fuelled by rapid advancement of interactive classroom technologies in both developed and emerging markets. As a result of operating leverage and more streamlined operations, the international education business achieved a significant turnaround with operating profitability in both the second quarter of 2017 and the first half of 2017. Second quarter of 2017 operating profits of Promethean, the international education subsidiary, was RMB78.6 million.

In China, the domestic education business continued to pick up momentum as the second quarter of 2017 revenue increased by 77.1% year over year. The China sales backlog, representing signed sales order to be delivered to or validated by the customers, was over RMB 230 million as of 30 June 2017. The user acquisition strategy is on track as the Group pushed teacher training programs nationwide across a large span of cities and provinces. This resulted in an installed user base of over 450,000 teachers for the flagship software 101 Education PPT to date, which includes 220,000 new teachers in the second quarter of 2017 alone. As the Group prepares for the start of the academic year in September 2017, it is expected to see an acceleration of new user acquisition in the coming months that paves the way towards the goal of achieving one million teacher acquisition by the end of 2017. The Group expects to see user engagement pick up after the new school year starts.

Looking forward, the Group expects the momentum to continue in both international and domestic education markets. Specifically, the Group expects to see increasing traction in the emerging markets in the second half of the year. In addition, the Group will continue to move forward the social commerce monetization strategy and expects to launch this platform in the fourth quarter of 2017, which will lead to significant online revenue next year. As for the domestic market, the Group will continue to scale the revenue and online users in the second half of the year.

Last but not least, in July of 2017, the Company successfully acquired JumpStart, a Los Angeles based provider of educational products that specializes in creative and educational games for K-12 children. JumpStart has built very impressive and popular educational games that are extremely valuable additions to the Group's product offerings. This strategic acquisition will open up tremendous opportunities for the Company to offer innovative and world-class learning products to the users globally.

FINANCIAL HIGHLIGHTS AND REVIEW

2017 Second Quarter Financial Highlights

- Revenue was RMB1,061.8 million, representing a 34.9% increase year-over-year.
- Revenue from the games business was RMB403.9 million, representing 38.0% of the Group's total revenue, registered a 36.1% increase year-over-year.
- Revenue from the education business was RMB636.3 million, representing 59.9% of the Group's total revenue, registered a 32.5% increase year-over-year.
- Gross profit was RMB587.5 million, representing a 34.3% increase year-over-year.
- Core segmental profit¹ from the games business was RMB165.3 million, representing a 66.4% increase year-over-year.
- Core segmental loss¹ from the education business was RMB31.4 million, representing a 64.2% decrease year-over-year.
- Non-GAAP operating profit² was RMB93.3 million, representing a 231.9% increase year-over-year.

2017 First Half Financial Highlights

- Revenue was RMB1,775.3 million, representing a 30.7% increase year-over-year.
- Revenue from the games business was RMB802.4 million, representing a 38.2% increase year-over-year.
- Revenue from the education business was RMB934.1 million, representing a 22.9% increase year-over-year.
- Gross profit was RMB1,033.3 million, representing a 31.8% increase year-over-year.

- Core segmental profit¹ from the games business was RMB334.1 million, representing a 72.5% increase year-over-year.
- Core segmental loss¹ from the education business was RMB189.2 million, representing a 14.4% decrease year-over-year.
- Profit attributable to owners of the Company was RMB25.8 million as compared to loss attributable to owners of the Company of RMB42.9 million for the same period last year.

Segmental Financial Highlights

(RMB'000)	FY2017 Q2		FY2017 Q1		FY2016 Q2	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	403,904	636,306	398,501	297,771	296,697	480,107
Gross profit	377,898	204,609	377,275	68,563	279,736	155,803
Gross margin	93.6%	32.2%	94.7%	23.0%	94.3%	32.5%
Core segmental profit (loss) ¹	165,349	(31,425)	168,761	(157,799)	99,356	(87,695)
Segmental operating expenses ³						
- Research and development	(103,633)	(94,831)	(99,527)	(88,960)	(82,060)	(91,390)
- Selling and marketing	(47,480)	(97,713)	(49,638)	(94,338)	(37,732)	(95,323)
- Administrative	(68,038)	(32,698)	(65,871)	(36,104)	(66,586)	(39,090)

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

Note 2: To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of non-GAAP operating profit measure is provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP operating profit measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating profit of the Group excludes share-based payments expense 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 second quarter of 2017, the first quarter of 2017 and the second quarter of 2016:

	Three months ended		
	30 June 2017	31 March 2017	30 June 2016
	<i>(Unaudited)</i> <i>RMB'000</i>	<i>(Unaudited)</i> <i>RMB'000</i>	<i>(Unaudited and restated)</i> <i>RMB'000</i>
Revenue	1,061,808	713,442	786,907
Cost of revenue	<u>(474,332)</u>	<u>(267,639)</u>	<u>(349,481)</u>
Gross profit	587,476	445,803	437,426
Other income and gains	26,999	10,526	86,036
Selling and marketing expenses	(146,452)	(146,038)	(134,777)
Administrative expenses	(172,600)	(172,253)	(185,026)
Development costs	(202,445)	(193,806)	(178,050)
Other expenses and losses	(12,647)	(4,559)	(16,646)
Share of (losses) profit of associates	(211)	(195)	213
Share of loss of a joint venture	<u>(46)</u>	<u>(7)</u>	<u>—</u>
Operating profit (loss)	80,074	(60,529)	9,176
Interest income on pledged bank deposits	706	—	—
Exchange gain (loss) on secured bank borrowings and convertible preferred shares	1,630	249	(6,341)
Net gain on convertible preferred shares	1,744	5,218	92,180
Net (loss) gain on disposal of held-for-trading investment	(36)	71	—
Net gain on held-for-trading investment	—	23	4,255
Finance costs	<u>(2,538)</u>	<u>(2,189)</u>	<u>(2,031)</u>
Profit (loss) before taxation	81,580	(57,157)	97,239
Taxation	<u>(15,599)</u>	<u>(15,911)</u>	<u>(6,679)</u>
Profit (loss) for the period	<u>65,981</u>	<u>(73,068)</u>	<u>90,560</u>
Profit (loss) for the period attributable to:			
- Owners of the Company	71,443	(45,666)	70,669
- Non-controlling interests	<u>(5,462)</u>	<u>(27,402)</u>	<u>19,891</u>
	<u>65,981</u>	<u>(73,068)</u>	<u>90,560</u>

2017 SECOND 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				
	30 June 2017	31 March 2017	31 December 2016	30 September 2016	30 June 2016
PCU	701,000	736,000	740,000	738,000	790,000
ACU	325,000	310,000	336,000	349,000	354,000

Note: As at 30 June 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, Conquer Online Pocket Version, Eudemons Online Pocket Version, Heroes Evolved Pocket Version, Pirate Arb and other games.

- Monthly Average revenue per user for online and mobile games was approximately RMB410, a 49.1% increase year-over-year.
- ACU for online and mobile games was approximately 325,000, an 8.2% decrease year-over-year.
- PCU for online and mobile games was approximately 701,000, an 11.3% decrease year-over-year.

(2) Active paying accounts were approximately 618,000, a 4.8% 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 six months ended 30 June 2017 together with the comparative figures in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Six months ended	
		2017	2016
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Revenue	4	1,775,250	1,358,544
Cost of revenue		<u>(741,971)</u>	<u>(574,673)</u>
Gross profit		1,033,279	783,871
Other income and gains	4	37,525	78,762
Selling and marketing expenses		(292,490)	(256,991)
Administrative expenses		(344,853)	(353,725)
Development costs		(396,251)	(347,162)
Other expenses and losses		(17,206)	(23,418)
Share of losses of associates		(406)	(530)
Share of loss of a joint venture		<u>(53)</u>	<u>—</u>
Operating profit (loss)		19,545	(119,193)
Interest income on pledged bank deposits		706	—
Exchange gain (loss) on secured bank borrowings and convertible preferred shares		1,879	(4,149)
Net gain on convertible preferred shares		6,962	95,841
Net gain on disposal of held-for-trading investment		35	—
Net gain on held-for-trading investment		23	1,010
Finance costs		<u>(4,727)</u>	<u>(4,768)</u>
Profit (loss) before taxation		24,423	(31,259)
Taxation	6	<u>(31,510)</u>	<u>(12,974)</u>
Loss for the period		<u>(7,087)</u>	<u>(44,233)</u>

		Six months ended	
		30 June	
		2017	2016
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>
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		11,862	(45,250)
Fair value loss on available-for-sale investment		<u>(7,940)</u>	<u>(3,448)</u>
Other comprehensive income (expense) for the period		<u>3,922</u>	<u>(48,698)</u>
Total comprehensive expense for the period		<u>(3,165)</u>	<u>(92,931)</u>
Profit (loss) for the period attributable to:			
- Owners of the Company		25,777	(42,894)
- Non-controlling interests		<u>(32,864)</u>	<u>(1,339)</u>
		<u>(7,087)</u>	<u>(44,233)</u>
Total comprehensive income (expense) attributable to:			
- Owners of the Company		27,496	(85,004)
- Non-controlling interests		<u>(30,661)</u>	<u>(7,927)</u>
		<u>(3,165)</u>	<u>(92,931)</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings (loss) per share	8		
- Basic		5.20	(8.68)
- Diluted		<u>5.20</u>	<u>(8.68)</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

		30 June 2017	31 December 2016
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	9	1,346,782	1,284,494
Prepaid lease payments		506,068	509,018
Investment properties		60,147	57,964
Intangible assets		708,402	722,498
Interests in associates		16,377	16,783
Interest in a joint venture		17,947	—
Available-for-sale investments		20,304	17,883
Loan receivables		21,188	20,477
Trade receivables	10	7,741	11,490
Deposits made for acquisition of property, plant and equipment		14,210	14,585
Goodwill		345,508	338,237
Deferred tax assets		3,571	3,445
		<u>3,068,245</u>	<u>2,996,874</u>
Current assets			
Properties under development		73,265	55,429
Inventories		103,452	125,285
Prepaid lease payments		6,003	6,003
Loan receivables		12,523	13,712
Trade receivables	10	545,621	351,693
Amounts due from customers for contract work		10,634	10,640
Other receivables, prepayments and deposits		160,516	121,564
Amounts due from related companies		1,748	1,704
Amounts due from associates		1,875	8,561
Tax recoverable		393	3,281
Held-for-trading investment		—	151,783
Restricted bank balance		13,611	—
Pledged bank deposits		145,486	411
Bank deposit		—	55,496
Bank balances and cash		817,892	876,532
		<u>1,893,019</u>	<u>1,782,094</u>
Assets classified as held for sale		<u>11,238</u>	—
		<u>1,904,257</u>	<u>1,782,094</u>

		30 June 2017	31 December 2016
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade and other payables	11	606,952	531,757
Amounts due to customers for contract work		3,595	988
Provisions		41,910	45,876
Deferred income		91,680	84,567
Amount due to a related company		7	978
Amounts due to associates		415	4,558
Convertible preferred shares	12	94,699	104,101
Secured bank borrowings	13	199,735	29,000
Income tax payable		27,262	18,364
		<u>1,066,255</u>	<u>820,189</u>
Net current assets		<u>838,002</u>	<u>961,905</u>
Total assets less current liabilities		<u>3,906,247</u>	<u>3,958,779</u>
Non-current liabilities			
Other payables		4,611	5,582
Provisions		1,763	1,702
Deferred tax liabilities		122,519	123,218
		<u>128,893</u>	<u>130,502</u>
Net assets		<u>3,777,354</u>	<u>3,828,277</u>
Capital and reserves			
Share capital		36,631	36,571
Share premium and reserves		3,790,355	3,817,258
Equity attributable to owners of the Company		3,826,986	3,853,829
Non-controlling interests		(49,632)	(25,552)
		<u>3,777,354</u>	<u>3,828,277</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 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	—	—	—	—	—	—	—	—	—	—	—	—	(42,894)	(42,894)	(1,339)	(44,233)
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(38,662)	(3,448)	—	(42,110)	(6,588)	(48,698)
Total comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(38,662)	(3,448)	(42,894)	(85,004)	(7,927)	(92,931)
Repurchase and cancellation of shares	(357)	(78,585)	357	—	—	—	—	—	—	—	—	—	(357)	(78,942)	—	(78,942)
Shares issued upon exercise of share options	167	14,999	—	—	—	—	—	—	—	(4,437)	—	—	—	10,729	—	10,729
Shares issued upon acquisition of subsidiaries	71	20,805	—	—	—	—	—	—	—	—	—	—	—	20,876	—	20,876
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	2,276	—	—	—	2,276	—	2,276
Awarded shares vested to employees	—	—	—	—	—	—	—	—	993	(2,898)	—	—	1,905	—	—	—
Deemed disposal of subsidiaries to a non-controlling shareholder	—	—	—	(543)	—	—	—	—	—	—	—	—	—	(543)	7,585	7,042
Acquisition of additional equity interests from non-controlling interests	—	—	—	(887)	—	—	—	—	—	—	—	—	—	(887)	(99)	(986)
Acquisition of a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	861	861
Dividend paid to non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,115)	(1,115)
Final dividend for 2015 paid	—	—	—	—	—	—	(49,767)	—	—	—	—	—	8,178	(41,589)	—	(41,589)
Interim dividend for 2016	—	—	—	—	—	—	42,433	—	—	—	—	—	(42,433)	—	—	—
At 30 June 2016 (unaudited)	36,607	844,559	6,066	38,034	10,035	260,714	42,433	22,449	(2,260)	21,534	(86,680)	(3,448)	2,930,719	4,120,762	9,096	4,129,858
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
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	—	—	25,777	25,777	(32,864)	(7,087)
Other comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	9,659	(7,940)	—	1,719	2,203	3,922
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	9,659	(7,940)	25,777	27,496	(30,661)	(3,165)
Repurchase and cancellation of shares	(91)	(23,641)	91	—	—	—	—	—	—	—	—	—	(91)	(23,732)	—	(23,732)
Shares issued upon exercise of share options	151	13,447	—	—	—	—	—	—	—	(4,301)	—	—	—	9,297	—	9,297
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	3,385	—	—	—	3,385	—	3,385
Awarded shares vested to employees	—	—	—	—	—	—	—	—	993	(3,172)	—	—	2,179	—	—	—
Deemed disposal of subsidiaries to non-controlling shareholders	—	—	—	1,454	—	—	—	—	—	—	—	—	—	1,454	(1,454)	—
Acquisition of additional equity interests from a non-controlling interest	—	—	—	(285)	—	—	—	—	—	—	—	—	—	(285)	(7)	(292)
Contribution from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8,042	8,042
Final dividend for 2016 paid	—	—	—	—	—	—	(44,374)	—	—	—	—	—	(84)	(44,458)	—	(44,458)
Interim dividend for 2017	—	—	—	—	—	—	43,137	—	—	—	—	—	(43,137)	—	—	—
At 30 June 2017 (unaudited)	36,631	819,932	6,246	29,339	10,035	292,864	43,137	22,449	(1,127)	16,269	(108,706)	(19,242)	2,679,159	3,826,986	(49,632)	3,777,354

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

	Six months ended	
	30 June	
	2017	2016
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH USED IN OPERATING ACTIVITIES	<u>(9,397)</u>	<u>(395,450)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(156,386)	(125,666)
Placement of pledged bank deposits	(145,078)	—
Investment in a joint venture	(18,000)	—
Placement of restricted bank balance	(13,611)	—
Purchase of assets classified as held for sale	(11,238)	—
Purchase of available-for-sale investment	(10,361)	(24,185)
Purchase of intangible assets	(8,702)	(15,445)
Payment for deposits of property, plant and equipment	(4,719)	(2,313)
Purchase of prepaid lease payments	(28)	(113,915)
Proceeds from disposal of held-for-trading investment	151,841	—
Withdrawal of bank deposits	54,858	946,976
Acquisitions of subsidiaries	—	(9,579)
Placement of bank deposits	—	(552,361)
Other investing activities	<u>4,983</u>	<u>19,530</u>
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(156,441)</u>	<u>123,042</u>
FINANCING ACTIVITIES		
New bank borrowings raised	1,043,706	844,581
Proceeds from shares issued upon exercise of share options	9,297	10,729
Contribution from non-controlling shareholders	5,900	—
Repayment of bank borrowings	(872,677)	(747,706)
Dividends paid	(44,458)	(41,589)
Payment for repurchase of shares	(23,732)	(78,942)
Other financing activities	<u>—</u>	<u>(1,168)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>118,036</u>	<u>(14,095)</u>

	Six months ended	
	30 June	
	2017	2016
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(47,802)	(286,503)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	876,532	1,126,957
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(10,838)</u>	<u>3,465</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>817,892</u>	<u>843,919</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 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

	Six months ended	
	30 June	
	2017	2016
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
Revenue		
Online game revenue	802,405	580,764
Education revenue	934,077	760,049
Mobile solution, products and marketing revenue	38,768	17,731
	<u>1,775,250</u>	<u>1,358,544</u>
Other income and gains		
Government grants <i>(Note)</i>	22,719	50,367
Interest income	4,392	12,519
Net foreign exchange gain	—	6,734
Fair value gain of investment properties	3,969	—
Game implementation income	3,287	3,450
Gain on disposal of assets classified as held for sale	—	1,601
Rental income, net of negligible outgoing expenses	2,082	2,991
Server rental income	248	655
Others	828	445
	<u>37,525</u>	<u>78,762</u>

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

5. SEGMENT INFORMATION

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

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

Six months ended 30 June 2017

	Online game (Unaudited) RMB’000	Education (Unaudited) RMB’000	Mobile solution, products and marketing (Unaudited) RMB’000	Total (Unaudited) RMB’000
Segment revenue	<u>802,405</u>	<u>934,077</u>	<u>38,768</u>	<u>1,775,250</u>
Segment profit (loss)	<u>386,815</u>	<u>(212,248)</u>	<u>(8,957)</u>	165,610
Unallocated income and gains				8,789
Unallocated expenses and losses				(149,999)
Net gain on held-for-trading investment				<u>23</u>
Profit before taxation				<u>24,423</u>

Six months ended 30 June 2016

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

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 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:

	30 June 2017 <i>(Unaudited)</i> RMB'000	31 December 2016 <i>(Audited)</i> RMB'000
Online game	2,195,143	2,191,394
Education	2,216,615	1,802,731
Mobile solution, products and marketing	<u>197,383</u>	<u>195,575</u>
Total segment assets	4,609,141	4,189,700
Unallocated	<u>363,361</u>	<u>589,268</u>
	<u><u>4,972,502</u></u>	<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

	Six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Hong Kong Profits Tax	4,280	2,644
The PRC Enterprise Income Tax ("EIT")	31,486	16,210
Taxation in other jurisdiction	377	394
Deferred tax	<u>(4,633)</u>	<u>(6,274)</u>
	<u>31,510</u>	<u>12,974</u>

The tax charge comprises:

Hong Kong Profits Tax	4,280	2,644
The PRC Enterprise Income Tax ("EIT")	31,486	16,210
Taxation in other jurisdiction	377	394
Deferred tax	<u>(4,633)</u>	<u>(6,274)</u>
	<u>31,510</u>	<u>12,974</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2017 and 30 June 2016.

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

The United Kingdom Finance Act 2016 included a reduction in the United Kingdom Corporate tax rate from 20% to 19% effective from the financial year beginning 1 April 2017. Therefore, United Kingdom Corporation tax rates applicable to subsidiaries are 20% from 1 January 2017 to 31 March 2017, and 19% effective from 1 April 2017 (six months ended 30 June 2016: 20%).

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

7. DIVIDENDS

On 15 June 2017, a dividend of Hong Kong dollars ("HKD") 0.10 per share (2016: HKD0.10 per share) was paid to shareholders as the final dividend for 2016. The aggregate amount of the final dividend paid in current interim period amounted to approximately RMB44,458,000 (2016: RMB41,589,000).

The directors of the Company have determined that an interim dividend of HKD0.10 per share (2016: HKD0.10 per share), amounting to approximately HKD49,702,000 (equivalent to approximately RMB43,137,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 20 September 2017.

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit (loss) for the purpose of basic and diluted earnings (loss) per share:		
- profit (loss) for the period attributable to the owners of the Company	<u>25,777</u>	<u>(42,894)</u>
	Number of shares	
	Six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of shares in issue during the period for the purpose of basic earnings (loss) per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	495,350	494,194
Effect of dilutive potential shares from the Company's share option scheme (<i>Note</i>)	<u>707</u>	<u>—</u>
Number of shares for the purpose of calculating diluted earnings (loss) per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>496,057</u>	<u>494,194</u>

Note: The calculation of diluted loss per share for the six months ended 30 June 2016 did 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 six months ended 30 June 2017, the deposits of approximately RMB5,094,000 (six months ended 30 June 2016: RMB5,061,000) were transferred to property, plant and equipment and the Group spent approximately RMB156,386,000 (six months ended 30 June 2016: RMB125,666,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB35,630,000 (six months ended 30 June 2016: RMB51,241,000) in plant and equipment and RMB90,566,000 (six months ended 30 June 2016: RMB62,540,000) 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.

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Trade debtors		
0 - 30 days	395,068	219,717
31 - 60 days	92,203	72,091
61 - 90 days	19,276	26,646
Over 90 days	31,658	25,980
Receivables with extended credit terms		
Due within one year	7,416	7,259
Due after one year	7,741	11,490
	<u>553,362</u>	<u>363,183</u>

11. TRADE AND OTHER PAYABLES

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Trade payables	329,992	215,844
Accrued staff costs	106,053	161,940
Receipt in advance	34,395	32,179
Other tax payables	16,210	16,622
Other payables and accruals (<i>Note</i>)	<u>120,302</u>	<u>105,172</u>
	<u>606,952</u>	<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.

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
0 - 90 days	321,583	165,030
91 - 180 days	6,397	49,629
181 - 365 days	895	141
Over 365 days	<u>1,117</u>	<u>1,044</u>
	<u>329,992</u>	<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 13.57% of the issued share capital of the Company), Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, DJM Holding Ltd. (in which Mr. Liu Dejian, 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:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
At the beginning of the period	104,101	278,499
Payment for repurchase of shares by the Group	—	(53)
Fair value change	(6,962)	(193,357)
Exchange adjustments	<u>(2,440)</u>	<u>19,012</u>
At the end of the period	<u>94,699</u>	<u>104,101</u>

13. SECURED BANK BORROWINGS

The secured bank borrowings carry interest at (i) interest rate of 200 to 250 basis points over 30-day London Inter-Bank Offer Rate (“LIBOR”), (ii) the higher of LIBOR plus 0.66% or 2.5% or (iii) one month Hong Kong Inter-Bank Offer Rate plus 1.5%. The borrowings were secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries, a pledged bank deposit or corporate guarantee provided by the Company.

14. EVENT AFTER THE REPORTING PERIOD

Acquisition of JumpStart

On 8 June 2017, Digital Train Limited (“Digital Train”), an indirect non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) with an independent third party (the “Seller”), pursuant to which the Seller conditionally agreed to sell and Digital Train conditionally agreed to acquire 100% equity interests of JumpStart. JumpStart is engaged in developing, publishing and distributing multimedia educational gaming software and online content for use in schools, and homes and on mobile devices. The aggregate purchase price shall be the sum of the initial consideration of USD7,574,478 plus the contingent purchase price up to (but not in excess of) USD20,000,000. The completion of the Sale and Purchase Agreement took place on 1 July 2017. The directors of the Company are in the process of ascertaining the financial impact arising on this transaction.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2017, we had a restricted bank balance, pledged bank deposits and bank balances and cash of approximately RMB977.0 million (31 December 2016: RMB932.4 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.05 (31 December 2016: 0.01). As at 30 June 2017, total bank borrowings of the Group amounted to approximately RMB199.7 million (31 December 2016: RMB29.0 million) were floating-rate loans and were secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries, a pledged bank deposit or corporate guarantee provided by the Company.

As at 30 June 2017, the Group had net current assets of approximately RMB838.0 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:

	At	At	At
	30 June	31 March	30 June
	2017	2017	2016
Research and development	3,494	3,493	3,135
Selling and marketing	1,361	1,290	1,169
Accounting, finance and general administration	860	857	931
Production	258	261	312
Total	<u>5,973</u>	<u>5,901</u>	<u>5,547</u>

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

As at 30 June 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 (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	255,822,457 (L)	51.47%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Leung Lim Kin, Simon (Note 4)	The Company	Beneficial owner	200,000 (L)	0.04%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	255,822,457 (L)	51.47%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	255,822,457 (L)	51.47%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Chen Hongzhan <i>(Note 5)</i>	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.25%
Chao Guowei, Charles <i>(Note 6)</i>	The Company	Beneficial owner	918,000 (L)	0.18%
Lee Kwan Hung <i>(Note 7)</i>	The Company	Beneficial owner	1,102,519 (L)	0.22%
Liu Sai Keung, Thomas <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 38.45% of the issued voting shares of the Company. Liu Dejian is also interested in 0.42% of the issued voting shares of the Company which is represented by beneficial interest of 1,884,000 shares and a beneficiary of a trust of 197,019 shares.

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

Zheng Hui is interested in 100.00% of the issued share capital of Fitter Property Inc., which in turn is interested in 3.83% of the issued voting shares of the Company. Zheng Hui is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 2.80% of the issued voting shares of the Company. Zheng Hui is also interested in 0.30% of the issued shares of the Company which is represented by beneficial interest of 1,497,000 shares.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.47% 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 2.25% of the issued voting shares of the Company which is represented by personal interest of 156,200 shares and interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares.
6. Chao Guowei, Charles is interested in 0.18% 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 30 June 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 30 June 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:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	38.45%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320 (L)	15.76%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320 (L)	15.76%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095 (L)	14.79%
First Elite Group Limited <i>(Note 3)</i>	The Company	Beneficial owner and through controlled corporation	26,541,819 (L)	5.34%
Jardine PTC Limited <i>(Note 3)</i>	The Company	Trustee	26,541,819 (L)	5.34%

Notes:

1. The letter “L” denotes the shareholder’s long position in the share capital of the relevant member of the Group.
2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.19%, 10.46%, 2.14% and 0.97% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. First Elite Group Limited is interested in 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 30 June 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 30 June 2017 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at	Number of share options			As at
			1 January 2017	Granted	Exercised	Lapsed	30 June 2017
Executive Directors							
Liu Luyuan	07.12.2009	4.33	1,400,000	—	1,400,000	—	0
	22.07.2011	4.60	284,000	—	284,000	—	0
Independent non-executive Directors							
Chao Guowei, Charles	04.12.2013	15.72	238,500	—	—	—	238,500
	31.03.2017	23.65	—	100,000	—	—	100,000
Lee Kwan Hung	04.12.2013	15.72	318,000	—	—	—	318,000
	31.03.2017	23.65	—	100,000	—	—	100,000
Liu Sai Keung, Thomas	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
	31.03.2017	23.65	—	100,000	—	—	100,000
Others							
Employees	28.04.2011	4.80	497,452	—	85,010	—	412,442
	22.07.2011	4.60	58,950	—	50,950	—	8,000
	23.04.2012	5.74	474,294	—	247,327	—	226,967
	06.07.2012	6.53	246,326	—	53,500	64,200	128,626
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	370,250	—	63,900	13,200	293,150
	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>2,184,687</u>	<u>77,400</u>	<u>3,085,935</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, 1,684,000 share options was exercised by Director 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.

100,000 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company on 31 March 2017. 109,586 awarded shares granted to a number of selected participants were outstanding as at 30 June 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 30 June 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 30 June 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 30 June 2017, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

ACQUISITION OF JUMPSTART GAMES INC.

On 8 June 2017 and 1 July 2017, Digital Train Limited, an indirect subsidiary of the Company entered into a sale and purchase agreement and a supplemental agreement with an independent third party for the acquisition of the entire issued and outstanding shares of capital stock of Jumpstart Games Inc. ("Jumpstart"), a company which engages in the educational mobile and multiplayer online games. The company offers learning-based games for kids; Jumpstart.com, a website that offers online gaming for the 3-10 year old demographic, as well as a safe and secure online environment where kids can interact, explore, and learn; MathBlaster.com, an online hub for outer space-based multiplayer online gaming; and educational mobile applications. Its products are used in homes and classrooms worldwide, as well as by teachers, parents, and respected organizations.

The total consideration for the acquisition of Jumpstart consist of initial consideration of USD7,574,478 and a contingent consideration of up to USD20,000,000 which shall mainly be determined based on the financial performance of Jumpstart for the 30-month period ending 30 June 2019. This transaction was completed on 1 July 2017 and the initial consideration was partially settled in cash in the amount of USD500,000 and a promissory note in the sum of USD7,074,478 which will be payable by Digital Train Limited.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 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.

INTERIM DIVIDEND

On 30 August 2017, the Board has resolved to declare an interim dividend of HKD0.10 per share for the six months ended 30 June 2017 (2016: HKD0.10 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 20 September 2017. It is expected that the interim dividend will be distributed on or before 28 February 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 September 2017 to Thursday, 21 September 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2017, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 19 September 2017.

AUDIT COMMITTEE

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

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

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

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

Month of shares bought back	Number of ordinary shares bought back	Price per share		Aggregate consideration paid
		Highest	Lowest	
		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
January 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, 30 August 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.