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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)

**THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS AND NINE MONTHS ENDED
30 SEPTEMBER 2017**

BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) recorded profitability for consecutive quarters in 2017, supported by the robust performance in both gaming and education businesses. The gaming business continued its outstanding performance in the third quarter of 2017 on the back of the flagship game Eudemons Online (魔域) that has reached another quarter of historical record-high revenue. The mobile games also delivered phenomenal growth, with mobile gaming revenue increasing 124.1% year-over-year. The pocket versions of the two flagship IPs, Eudemons Online (魔域) and Heroes Evolved (英魂之刃), continued to perform exceptionally well during the third quarter of 2017. Meanwhile, the pipeline of new games is stronger than ever, and for that the Company is confident in the growth trajectory of the gaming business going forward.

The Company is excited by the strong progress of the education business. The Group is pleased to announce that the installed user base of the flagship platform 101 Education PPT in China has reached the end-of-year target of 1 million K-12 teachers as of end of November 2017. The tender sales traction in China also reached a record quarter as the Group achieved RMB150 million of contracted sales in the third quarter of 2017 alone. Outside of China, the international business had another remarkable quarter as overseas revenue increased by 56.2% year-over-year, as a result of very strong growth in both the U.S. and emerging markets as Promethean further solidifies the global market share leadership in deployment of K-12 interactive classroom technologies.

Gaming Business

The Company's gaming business delivered another exceptional quarter with record high revenue at RMB440.2 million in the third quarter of 2017, registering a 53.6% increase year-over-year, and core segmental profit at RMB179.1 million, an 123.5% increase year-over-year. The robust performance was attributable to overall revenue growth of games under the flagship IPs, Eudemons Online (魔域) and Heroes Evolved (英魂之刃), as well as increasing contribution from mobile games as mobile gaming revenue increased by 124.1% year-over-year. The Company achieved revenue growth with a broad-based uptick of key operating metrics including 51.7% increase in ARPU and 38.4% increase in APA on a year-over-year basis. In addition, Monthly Active Users ("MAU") and Daily Active Users ("DAU") also increased significantly by 86.7% and 19.0% respectively on a year-over-year basis.

The dual strategy of IP L value maximization and mobile extension continued to pay dividends. The flagship IP Eudemons Online (魔域) continued to produce outstanding result as it delivered six consecutive months of monthly gross billings over RMB 100 million, while the pocket version reached a record high monthly gross billing in September 2017 and was ranked as the 'top ten most outstanding app by billings' on Tencent Open Platform in August 2017 and September 2017. A new Eudemons browser-based game with IP licensed by the Company also went open-beta launch in September 2017 with monthly gross billing of RMB27.1 million. The long-awaited flagship Eudemons Online Mobile (魔域手遊) (launched in partnership with Kingsoft) was officially launched in October 2017 and produced a gross billing of over RMB100 million in the first month of operations.

Heroes Evolved (英魂之刃), another flagship IP, continued to expand on its user base as MAU under this IP increased by 33.4% quarter-over-quarter and 140.9% year-over-year. Mobile monetization gained significant traction in the third quarter of 2017 as revenue of the pocket version increased by 181.3% quarter-over-quarter. To date, this game has already been downloaded by over 100 million players, and has been ranked as the 'top three downloaded mobile games' on Tencent Open Platform for nine consecutive months in 2017.

Looking forward, the Company expects momentum to carry on as it builds on this initial success of the IP and mobile strategy with an exciting pipeline of new games which the Company is confident that it will bring the gaming business to another level.

Education Business

The education business delivered another strong quarter both in China and in overseas markets. Promethean, the international education subsidiary, achieved revenue of RMB525.9 million, a 56.2% increase year-over-year, and a second consecutive quarter of operating profitability in 2017. This is on the back of the proven success in major markets including the U.S., Europe, Middle East and Central Asia, as the Company remains as the K-12 market share leader in the international markets. The Company has seen the U.S. market pick up significantly in the third quarter of 2017 as total K-12 market shipment volumes in the U.S. increased by 48.8% year-over-year, while Promethean's shipment volume exceeded the market growth by growing 107.2% year-over-year. As the K-12 space continues to embrace interactive classroom technologies with increasing traction, the Company expects the trend will bode well for (1) higher adoption by emerging countries as it follows the lead of the U.S., and (2) increasing need of internet platforms to work with the hardware, which plays into the strength of the Group with the internet and platform capabilities. The Company continued to see fruitful results along the Belt and Road Initiatives as revenue from the partnership in the City of Moscow materialized during 2017 as the Company got itself well prepared for upcoming opportunities. Meanwhile, the Company also see significant opportunities in other emerging countries, particularly in Turkey and Malaysia. Overall, the progress in the emerging markets is strong and on track.

In China, the Company contracted sales reached a record-high of RMB150 million in the third quarter of 2017 as the Group won over 100 tenders in the third quarter of 2017, more than three times year-on-year. As of end of the third quarter of 2017, the China sales backlog, representing signed sales order to be delivered to or validated by the customers, was RMB344 million. The Company believes the increasing traction in the sales orders is a testament to the market receptiveness of the software products.

As of the end of November 2017, the Company achieved the year-end goal of reaching 1 million installed teachers of the flagship software platform 101 Education PPT. This is on the back of the successful user acquisition strategy of launching teacher training programs nationwide across a large span of cities and provinces, and working closely with education bureaus. With this critical mass of installed teachers in China, the Company will focus on developing the engagements with these teachers and the stickiness of the platform, as it aims to make 101 Education PPT the platform of choice for delivery of digital classroom and content distribution in China.

Looking forward, with the leading interactive classroom and internet platform technologies, the Company expects the rapid digitization of classrooms around the world will be conducive to not only the revenue growth, but also adoption of the software platform which the Company aims to become the world's largest learning community.

FINANCIAL HIGHLIGHTS

2017 Third Quarter Financial Highlights

- Revenue was RMB1,060.6 million, representing a 52.7% increase year-over-year.
- Revenue from the games business was RMB440.2 million, representing 41.5% of the Group's total revenue, registered a 53.6% increase year-over-year.
- Revenue from the education business was RMB595.9 million, representing 56.2% of the Group's total revenue, registered a 51.9% increase year-over-year.
- Gross profit was RMB584.9 million, representing a 51.9% increase year-over-year.
- Core segmental profit¹ from the games business was RMB179.1 million, representing an 123.5% increase year-over-year.
- Core segmental loss¹ from the education business was RMB107.9 million, representing an 1.5% increase year-over-year.
- Non-GAAP operating profit² was RMB12.6 million, compared to non-GAAP operating loss² of RMB88.9 million for the same period last year.
- Profit attributable to owners of the Company was RMB5.1 million, compared to loss attributable to owners of the Company of RMB65.4 million for the same period last year.

Segmental Financial Highlights

(RMB'000)	FY2017 Q3		FY2017 Q2		FY2016 Q3	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	440,229	595,935	403,904	636,306	286,559	392,220
Gross profit	409,997	168,175	377,898	204,609	266,002	115,436
Gross margin	93.1%	28.2%	93.6%	32.2%	92.8%	29.4%
Core segmental profit (loss) ¹	179,061	(107,850)	165,349	(31,425)	80,110	(106,301)
Segmental operating expenses ³						
- Research and development	(112,645)	(107,346)	(103,633)	(94,831)	(91,283)	(95,717)
- Selling and marketing	(53,838)	(107,673)	(47,480)	(97,713)	(39,223)	(81,561)
- Administrative	(70,675)	(42,753)	(68,038)	(32,698)	(62,046)	(32,569)

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 (loss) measure is provided solely to enhance the overall understanding of the Group's current financial performance. The non-GAAP operating profit (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 profit (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 such as depreciation and amortisation that have been grouped into SG&A categories on the Company's reported consolidated financial statements but cannot be allocated to specific business segments for purpose of calculating the segmental profit (loss) figures in accordance with HKFRS 8.

The following table sets forth the comparative figures for the third quarter of 2017, the second quarter of 2017 and the third quarter of 2016:

	Three months ended		
	30 September 2017 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000	30 September 2016 (Unaudited) RMB'000
Revenue	1,060,602	1,061,808	694,544
Cost of revenue	<u>(475,716)</u>	<u>(474,332)</u>	<u>(309,579)</u>
Gross profit	584,886	587,476	384,965
Other income and gains	9,315	26,999	12,406
Selling and marketing expenses	(163,252)	(146,452)	(122,819)
Administrative expenses	(186,571)	(172,600)	(172,074)
Development costs	(224,661)	(202,445)	(191,788)
Other expenses and losses	(20,222)	(12,647)	(16,041)
Share of losses of associates	(144)	(211)	(184)
Share of loss of a joint venture	<u>(98)</u>	<u>(46)</u>	<u>—</u>
Operating (loss) profit	(747)	80,074	(105,535)
Interest income on pledged bank deposits	925	706	—
Exchange (loss) gain on secured bank borrowings and convertible preferred shares	(84)	1,630	(5,733)
Net gain on convertible preferred shares	5,545	1,744	37,276
Net loss on disposal of held-for-trading investment	—	(36)	—
Net gain on held-for-trading investment	—	—	5,656
Finance costs	<u>(2,804)</u>	<u>(2,538)</u>	<u>(1,927)</u>
Profit (loss) before taxation	2,835	81,580	(70,263)
Taxation	<u>(13,370)</u>	<u>(15,599)</u>	<u>(4,082)</u>
(Loss) profit for the period	<u>(10,535)</u>	<u>65,981</u>	<u>(74,345)</u>
Profit (loss) for the period attributable to:			
- Owners of the Company	5,094	71,443	(65,435)
- Non-controlling interests	<u>(15,629)</u>	<u>(5,462)</u>	<u>(8,910)</u>
	<u>(10,535)</u>	<u>65,981</u>	<u>(74,345)</u>

2017 THIRD 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 September 2017	30 June 2017	31 March 2017	31 December 2016	30 September 2016
PCU	727,000	701,000	736,000	740,000	738,000
ACU	362,000	325,000	310,000	336,000	349,000

Note: As at 30 September 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 RMB405, a 51.7% increase year-over-year.
 - ACU for online and mobile games was approximately 362,000, a 3.7% increase year-over-year.
 - PCU for online and mobile games was approximately 727,000, an 1.5% decrease year-over-year.
- (2) Active paying accounts were approximately 740,000, a 38.4% 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 and nine months ended 30 September 2017 together with the comparative figures in 2016 as follows:

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

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Revenue	4	1,060,602	694,544	2,835,852	2,053,088
Cost of revenue		(475,716)	(309,579)	(1,217,687)	(884,252)
Gross profit		584,886	384,965	1,618,165	1,168,836
Other income and gains	4	9,315	12,406	46,840	86,495
Selling and marketing expenses		(163,252)	(122,819)	(455,742)	(379,810)
Administrative expenses		(186,571)	(172,074)	(531,424)	(525,799)
Development costs		(224,661)	(191,788)	(620,912)	(538,950)
Other expenses and losses		(20,222)	(16,041)	(37,428)	(34,786)
Share of losses of associates		(144)	(184)	(550)	(714)
Share of loss of a joint venture		(98)	—	(151)	—
Operating (loss) profit		(747)	(105,535)	18,798	(224,728)
Interest income on pledged bank deposits		925	—	1,631	—
Exchange (loss) gain on secured bank borrowings and convertible preferred shares		(84)	(5,733)	1,795	(9,882)
Net gain on convertible preferred shares		5,545	37,276	12,507	133,117
Net gain on disposal of held-for-trading investment		—	—	35	—
Net gain on held-for-trading investment		—	5,656	23	6,666
Finance costs		(2,804)	(1,927)	(7,531)	(6,695)
Profit (loss) before taxation		2,835	(70,263)	27,258	(101,522)
Taxation	6	(13,370)	(4,082)	(44,880)	(17,056)
Loss for the period		(10,535)	(74,345)	(17,622)	(118,578)

	NOTE	Three months ended 30 September		Nine months ended 30 September	
		2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Other comprehensive (expense) income 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		1,953	(5,359)	13,815	(50,609)
Fair value loss on available-for-sale investment		<u>(3,110)</u>	<u>(3,131)</u>	<u>(11,050)</u>	<u>(6,579)</u>
Other comprehensive income (expense) for the period		<u>(1,157)</u>	<u>(8,490)</u>	<u>2,765</u>	<u>(57,188)</u>
Total comprehensive expense for the period		<u><u>(11,692)</u></u>	<u><u>(82,835)</u></u>	<u><u>(14,857)</u></u>	<u><u>(175,766)</u></u>
Profit (loss) for the period attributable to:					
- Owners of the Company		5,094	(65,435)	30,871	(108,329)
- Non-controlling interests		<u>(15,629)</u>	<u>(8,910)</u>	<u>(48,493)</u>	<u>(10,249)</u>
		<u><u>(10,535)</u></u>	<u><u>(74,345)</u></u>	<u><u>(17,622)</u></u>	<u><u>(118,578)</u></u>
Total comprehensive income (expense) attributable to:					
- Owners of the Company		3,173	(73,095)	30,669	(158,099)
- Non-controlling interests		<u>(14,865)</u>	<u>(9,740)</u>	<u>(45,526)</u>	<u>(17,667)</u>
		<u><u>(11,692)</u></u>	<u><u>(82,835)</u></u>	<u><u>(14,857)</u></u>	<u><u>(175,766)</u></u>
		<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
Earnings (loss) per share	8				
- Basic		1.02	(13.18)	6.22	(21.89)
- Diluted		<u>1.02</u>	<u>(13.18)</u>	<u>6.21</u>	<u>(21.89)</u>

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

		30 September 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	1,355,154	1,284,494
Prepaid lease payments		526,352	509,018
Investment properties		62,280	57,964
Intangible assets		757,838	722,498
Interests in associates		16,233	16,783
Interest in a joint venture		17,849	—
Available-for-sale investments		17,194	17,883
Loan receivables		19,867	20,477
Trade receivables	10	7,741	11,490
Deposits made for acquisition of property, plant and equipment		5,554	14,585
Goodwill		381,253	338,237
Deferred tax assets		3,591	3,445
		<u>3,170,906</u>	<u>2,996,874</u>
Current assets			
Properties under development		108,544	55,429
Property held for sale		11,009	—
Inventories		139,219	125,285
Prepaid lease payments		6,303	6,003
Loan receivables		5,273	13,712
Trade receivables	10	468,174	351,693
Amounts due from customers for contract work		15,226	10,640
Other receivables, prepayments and deposits		228,188	121,564
Amounts due from related companies		1,770	1,704
Amounts due from associates		1,879	8,561
Amount due from a joint venture		69	—
Tax recoverable		393	3,281
Held-for-trading investment		—	151,783
Restricted bank balance		13,611	—
Pledged bank deposits		145,280	411
Bank deposit		—	55,496
Bank balances and cash		1,743,471	876,532
		<u>2,888,409</u>	<u>1,782,094</u>

		30 September	31 December
		2017	2016
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade and other payables	11	824,090	531,757
Amounts due to customers for contract work		2,148	988
Provisions		45,183	45,876
Deferred income		99,409	84,567
Promissory note		46,966	—
Amount due to a related company		10	978
Amounts due to associates		1,827	4,558
Convertible preferred shares		87,091	104,101
Secured bank borrowings		141,234	29,000
Income tax payable		31,856	18,364
		<u>1,279,814</u>	<u>820,189</u>
Net current assets		<u>1,608,595</u>	<u>961,905</u>
Total assets less current liabilities		<u>4,779,501</u>	<u>3,958,779</u>
Non-current liabilities			
Other payables		2,732	5,582
Provisions		893	1,702
Secured bank borrowings		32,351	—
Deferred tax liabilities		144,241	123,218
		<u>180,217</u>	<u>130,502</u>
Net assets		<u>4,599,284</u>	<u>3,828,277</u>
Capital and reserves			
Share capital		39,201	36,571
Share premium and reserves		4,610,240	3,817,258
Equity attributable to owners of the Company		4,649,441	3,853,829
Non-controlling interests		<u>(50,157)</u>	<u>(25,552)</u>
		<u>4,599,284</u>	<u>3,828,277</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

	Attributable to owners of the Company															
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Dividend reserve RMB'000	Revaluation reserve RMB'000	Treasury share reserve RMB'000	Employee share-based compensation reserve RMB'000	Translation reserve RMB'000	Available-for-sale investment reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	36,726	887,340	5,709	39,464	10,035	260,714	49,767	22,449	(3,253)	26,593	(48,018)	—	3,006,320	4,293,846	9,791	4,303,637
Loss for the period	—	—	—	—	—	—	—	—	—	—	—	—	(108,329)	(108,329)	(10,249)	(118,578)
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(43,191)	(6,579)	—	(49,770)	(7,418)	(57,188)
Total comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(43,191)	(6,579)	(108,329)	(158,099)	(17,667)	(175,766)
Repurchase and cancellation of shares	(357)	(78,585)	357	—	—	—	—	—	—	—	—	—	(357)	(78,942)	—	(78,942)
Shares issued upon exercise of share options	214	22,694	—	—	—	—	—	—	(6,766)	—	—	—	16,142	—	16,142	
Shares issued upon acquisition of subsidiaries	71	20,805	—	—	—	—	—	—	—	—	—	—	20,876	—	20,876	
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	3,268	—	—	—	3,268	—	3,268	
Awarded shares vested to employees	—	—	—	—	—	—	—	1,130	(3,345)	—	—	2,215	—	—	—	
Deemed disposal of subsidiaries to non-controlling shareholders	—	—	—	(2,585)	—	—	—	—	—	—	—	—	(2,585)	8,377	5,792	
Acquisition of additional equity interests from non-controlling interests	—	—	—	(7,751)	—	—	—	—	—	—	—	—	(7,751)	(253)	(8,004)	
Contribution from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	3,723	3,723	
Acquisition of a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	138	138	
Dividend paid to non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,115)	(1,115)	
Transfer upon deregistration of a subsidiary	—	—	—	(1)	—	—	—	—	—	—	—	1	—	—	—	
Final dividend for 2015 paid	—	—	—	—	—	—	(49,767)	—	—	—	—	8,178	(41,589)	—	(41,589)	
Interim dividend for 2016 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(42,494)	(42,494)	—	(42,494)	
At 30 September 2016 (unaudited)	36,654	852,254	6,066	29,127	10,035	260,714	—	22,449	(2,123)	19,750	(91,209)	(6,579)	2,865,534	4,002,672	2,994	4,005,666
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	—	—	—	—	—	—	—	—	—	—	—	—	30,871	30,871	(48,493)	(17,622)
Other comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	10,848	(11,050)	—	(202)	2,967	2,765
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	10,848	(11,050)	30,871	30,669	(45,526)	(14,857)
Repurchase and cancellation of shares	(91)	(23,641)	91	—	—	—	—	—	—	—	—	—	(91)	(23,732)	—	(23,732)
Shares issued upon exercise of share options	166	15,635	—	—	—	—	—	—	(4,912)	—	—	—	10,889	—	10,889	
Issue of new shares	2,555	818,366	—	—	—	—	—	—	—	—	—	—	820,921	—	820,921	
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	4,253	—	—	—	4,253	—	4,253	
Awarded shares vested to employees	—	—	—	—	—	—	—	1,168	(3,754)	—	—	2,586	—	—	—	
Deemed disposal of subsidiaries to non-controlling shareholders without losing control	—	—	—	(450)	—	—	—	—	—	—	—	—	(450)	450	—	
Acquisition of additional equity interests from a non-controlling interests	—	—	—	(2,480)	—	—	—	—	—	—	—	—	(2,480)	799	(1,681)	
Contribution from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	19,672	19,672	
Final dividend for 2016 paid	—	—	—	—	—	—	(44,374)	—	—	—	—	(84)	(44,458)	—	(44,458)	
Interim dividend for 2017 declared	—	—	—	—	—	—	43,137	—	—	—	—	(43,137)	—	—	—	
At 30 September 2017 (unaudited)	39,201	1,640,486	6,246	25,240	10,035	292,864	43,137	22,449	(952)	15,944	(107,517)	(22,352)	2,684,660	4,649,441	(50,157)	4,599,284

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

	Nine months ended	
	30 September	
	2017	2016
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>347,195</u>	<u>(319,171)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(234,390)	(190,977)
Placement of pledged bank deposits	(145,088)	(396)
Investment in a joint venture	(18,000)	—
Placement of restricted bank balance	(13,611)	—
Purchase of prepaid lease payments	(23,355)	(118,623)
Purchase of available-for-sale investment	(10,361)	(24,185)
Purchase of intangible assets	(11,992)	(19,439)
Acquisition of subsidiaries	(2,365)	(9,579)
Payment for deposits of property, plant and equipment	(7,842)	(3,154)
Withdrawal of bank deposits	54,858	1,007,235
Placement of bank deposits	—	(552,361)
Other investing activities	<u>18,079</u>	<u>14,377</u>
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(394,067)</u>	<u>102,898</u>
FINANCING ACTIVITIES		
Issue of new shares	820,921	—
New bank borrowings raised	1,615,700	1,294,108
Proceeds from shares issued upon exercise of share options	10,889	16,142
Contribution from non-controlling shareholders	19,672	3,723
Repayment of bank borrowings	(1,469,901)	(1,284,883)
Repayment of other borrowing	—	(3,270)
Dividends paid	(44,458)	(84,083)
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>929,091</u>	<u>(138,373)</u>

	Nine months ended	
	30 September	
	2017	2016
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	882,219	(354,646)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	876,532	1,126,957
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(15,280)</u>	<u>17,167</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>1,743,471</u>	<u>789,478</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 nine months ended 30 September 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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf 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. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKAS 39, 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. The difference between the carrying amount of the joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the joint venture is included in

the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. 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.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

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

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

4. REVENUE, OTHER INCOME AND GAINS

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
Online game revenue	440,229	286,559	1,242,634	867,323
Education revenue	595,935	392,220	1,530,012	1,152,269
Mobile solution, products and marketing revenue	<u>24,438</u>	<u>15,765</u>	<u>63,206</u>	<u>33,496</u>
	<u>1,060,602</u>	<u>694,544</u>	<u>2,835,852</u>	<u>2,053,088</u>
Other income and gains				
Government grants (<i>Note</i>)	2,406	511	25,125	50,878
Interest income	988	2,858	5,380	15,377
Net foreign exchange gain	—	—	—	2,061
Fair value gain of investment properties	3,442	—	7,411	—
Game implementation income	769	2,591	4,056	6,041
Gain on disposal of assets classified as held for sale	—	—	—	1,601
Rental income, net of negligible outgoing expenses	1,221	1,524	3,303	4,515
Server rental income	32	4	280	659
Reversal of allowance for doubtful debts	30	3,106	30	3,106
Others	<u>427</u>	<u>1,812</u>	<u>1,255</u>	<u>2,257</u>
	<u>9,315</u>	<u>12,406</u>	<u>46,840</u>	<u>86,495</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 recognised in the profit or loss.

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:

Nine months ended 30 September 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>1,242,634</u>	<u>1,530,012</u>	<u>63,206</u>	<u>2,835,852</u>
Segment profit (loss)	<u>585,567</u>	<u>(331,839)</u>	<u>(9,079)</u>	244,649
Unallocated income and gains				13,511
Unallocated expenses and losses				(230,925)
Net gain on held-for-trading investment				<u>23</u>
Profit before taxation				<u>27,258</u>

Three months ended 30 September 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>440,229</u>	<u>595,935</u>	<u>24,438</u>	<u>1,060,602</u>
Segment profit (loss)	<u>198,752</u>	<u>(119,591)</u>	<u>(122)</u>	79,039
Unallocated income and gains				4,722
Unallocated expenses and losses				(80,926)
Profit before taxation				<u>2,835</u>

Nine months ended 30 September 2016

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

Three months ended 30 September 2016

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

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 net gain on 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 September	31 December
	2017	2016
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Online game	2,176,534	2,191,394
Education	2,473,483	1,802,731
Mobile solution, products and marketing	<u>191,961</u>	<u>195,575</u>
Total segment assets	4,841,978	4,189,700
Unallocated	<u>1,217,337</u>	<u>589,268</u>
	<u>6,059,315</u>	<u>4,778,968</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

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
The tax charge comprises:				
Hong Kong Profits Tax	2,064	1,952	6,344	4,596
The PRC Enterprise Income Tax ("EIT")	13,480	5,249	44,966	21,459
Taxation in other jurisdiction	149	124	526	518
Deferred tax	<u>(2,323)</u>	<u>(3,243)</u>	<u>(6,956)</u>	<u>(9,517)</u>
	<u>13,370</u>	<u>4,082</u>	<u>44,880</u>	<u>17,056</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months and nine months ended 30 September 2017 and 30 September 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 (three months and nine months ended 30 September 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).

Interim dividend of HKD0.10 per share for the six months ended 30 June 2017 (six months ended 30 June 2016: HKD0.10 per share), amounting to approximately RMB43,137,000 (six months ended 30 June 2016: RMB42,494,000) in aggregate, had been approved by the directors of the Company at the Board meeting on 30 August 2017 and was paid on 10 November 2017.

The directors of the Company do not recommend the payment of an interim dividend for the three months ended 30 September 2017 (three months ended 30 September 2016: Nil).

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:

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	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>5,094</u>	<u>(65,435)</u>	<u>30,871</u>	<u>(108,329)</u>
	Number of shares			
	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	'000	'000	'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)	<u>497,733</u>	496,408	<u>496,153</u>	494,937
Effect of dilutive potential shares from the Company's share option scheme (Note)	<u>—</u>	<u>—</u>	<u>1,276</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>497,733</u>	<u>496,408</u>	<u>497,429</u>	<u>494,937</u>

Note: The calculation of diluted earnings per share for the three months ended 30 September 2017 and diluted loss for the three months and nine months ended 30 September 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 increase/decrease in earnings/loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2017, the deposits of approximately RMB11,873,000 (nine months ended 30 September 2016: RMB6,632,000) were transferred to property, plant and equipment and the Group spent approximately RMB234,487,000 (nine months ended 30 September 2016: RMB191,752,000) for the acquisition of property, plant and equipment to expand its operations which included an amount of approximately RMB97,000 (nine months ended 30 September 2016: RMB775,000) being acquired upon the acquisition of subsidiaries. The additions for the period mainly included RMB58,411,000 (nine months ended 30 September 2016: RMB74,929,000) in plant and equipment and RMB149,473,000 (nine months ended 30 September 2016: RMB102,295,000) 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 collecting agents/trade customers, except for certain well-established customers, a longer credit period is allowed. For certain customers in education business, the Group accepts settlement of trade receivables by four years in accordance with the agreements.

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

	30 September 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Trade debtors		
0 - 30 days	271,589	219,717
31 - 60 days	105,513	72,091
61 - 90 days	37,553	26,646
Over 90 days	45,817	25,980
Receivables with extended credit terms		
Due within one year	7,702	7,259
Due after one year	7,741	11,490
	<u>475,915</u>	<u>363,183</u>

11. TRADE AND OTHER PAYABLES

	30 September 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Trade payables	444,306	215,844
Accrued staff costs	149,577	161,940
Receipt in advance	88,304	32,179
Other tax payables	15,499	16,622
Other payables and accruals (<i>Note</i>)	<u>126,404</u>	<u>105,172</u>
	<u>824,090</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 September 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
0 - 90 days	382,368	165,030
91 - 180 days	60,590	49,629
181 - 365 days	382	141
Over 365 days	<u>966</u>	<u>1,044</u>
	<u>444,306</u>	<u>215,844</u>

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2017, we had a restricted bank balance, pledged bank deposits, bank deposit and bank balances and cash of approximately RMB1,902.4 million (31 December 2016: RMB932.4 million). The gearing ratio (consolidated bank borrowings and consolidated promissory note/consolidated total equity) was 0.05 (31 December 2016: 0.01). As at 30 September 2017, total bank borrowings and promissory note of the Group amounted to approximately RMB220.6 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 or a property of a subsidiary and corporate guarantee provided by a subsidiary.

As at 30 September 2017, the Group had net current assets of approximately RMB1,608.6 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 September	30 June	30 September
	2017	2017	2016
Research and development	3,833	3,494	3,506
Selling and marketing	1,342	1,361	1,191
Accounting, finance and general administration	918	860	1,002
Production	270	258	287
Total	<u>6,363</u>	<u>5,973</u>	<u>5,986</u>

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

As at 30 September 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)	47.75%
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)	47.75%
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)	47.75%
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)	2.09%
Chao Guowei, Charles <i>(Note 6)</i>	The Company	Beneficial owner	918,000 (L)	0.17%
Lee Kwan Hung <i>(Note 7)</i>	The Company	Beneficial owner	1,112,519 (L)	0.21%
Liu Sai Keung, Thomas <i>(Note 8)</i>	The Company	Beneficial owner	975,019 (L)	0.18%

Notes:

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 100.00% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 35.67% of the issued voting shares of the Company. Liu Dejian is also interested in 0.39% 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 5.27% 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 3.55% 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 2.60% of the issued voting shares of the Company. Zheng Hui is also interested in 0.28% 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 47.75% 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 2.09% 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 0.17% 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 0.21% of the issued voting shares of the Company which is represented by personal interest of 694,519 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 0.18% 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 September 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 September 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)	35.67%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320 (L)	14.62%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320 (L)	14.62%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095 (L)	13.72%
First Elite Group Limited <i>(Note 3)</i>	The Company	Beneficial owner and through controlled corporation	26,541,819 (L)	4.95%
Jardine PTC Limited <i>(Note 3)</i>	The Company	Trustee	26,541,819 (L)	4.95%

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 2.04%, 9.70%, 1.98% and 0.90% 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 September 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 September 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 September 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	—	123,835	—	373,617
	22.07.2011	4.60	58,950	—	50,950	—	8,000
	23.04.2012	5.74	474,294	—	296,477	—	177,817
	06.07.2012	6.53	246,326	—	170,376	64,200	11,750
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	370,250	—	72,400	13,200	284,650
	25.04.2014	14.66	278,000	—	—	—	278,000
	11.05.2015	27.75	<u>214,000</u>	—	<u>20,000</u>	—	<u>194,000</u>
Total			<u>5,048,022</u>	<u>300,000</u>	<u>2,418,038</u>	<u>77,400</u>	<u>2,852,584</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. 69,950 awarded shares granted to a number of selected participants were outstanding as at 30 September 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 256,546 vested awarded shares as at 30 September 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 September 2017, 80,000 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 HKD409.5 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 87.27% to approximately 78.95%.

As at 30 September 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.

TOP-UP PLACING AND SUBSCRIPTION

On 22 September 2017, in order to raise additional funds for general corporate purposes and to fund the growth of its online education business, including capitalizing on revenue opportunities globally, as well as in user scaling and monetization, the Company entered into a placing and subscription agreement (the "Placing and Subscription Agreement") with DJM Holding Ltd ("DJM Holding") and

Mr. Liu Dejian, both of whom are controlling shareholders of the Company, and the placing agent, being Goldman Sachs (Asia) L.L.C. (the “Placing Agent”), pursuant to which the Placing Agent have agreed to procure not less than six placees, who (and in the case of any corporate entities, their ultimate beneficial owners) are third parties independent of, and not connected with, the Company and its connected persons, to purchase 38,500,000 ordinary shares held by DJM Holding at the top-up placing price of HKD25.40 per share (the “Top-up Placing Price”).

Pursuant to the terms of the Placing and Subscription Agreement, DJM Holding has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the subscription of 38,500,000 new ordinary shares of USD0.01 each (the “Top-up Subscription Shares”) at the subscription price of HKD25.40 per share. The aggregate nominal value of the Top-up Subscription Shares amounted to USD385,000. The Top-up Placing Price represents (i) a discount of approximately 7.13% to the closing price of HKD27.35 per share as quoted on the Stock Exchange on the date of the Placing and Subscription Agreement; and (ii) a discount of approximately 10.94% to the average of the closing prices of HKD28.52 per share as quoted on the Stock Exchange for the last five trading days up to and including 21 September 2017, being the last trading day in respect of the Shares immediately prior to the date of the Placing and Subscription Agreement.

On 30 September 2017, the placing and the subscription were completed and the total number of Top-up Subscription Shares allotted and issued to DJM Holding under the Placing and Subscription Agreement was 38,500,000. The net price of each Top-up Subscription Share was approximately HKD25.146. The net proceeds raised by the Company from placing and the subscription was approximately HKD968.12 million. The net proceeds were used as intended and were mainly utilized for the online education business of the Group and the remaining balance as general working capital of the Group.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the nine months ended 30 September 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 quarterly results for the nine months ended 30 September 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 nine months ended 30 September 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 <i>HKD</i>
		Highest <i>HKD</i>	Lowest <i>HKD</i>	
January 2017	<u>729,000</u>	<u>22.80</u>	<u>21.35</u>	<u>16,168,975</u>

REVIEW OF QUARTERLY RESULTS

The third quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, and reviewed by the Audit Committee of the Company, comprising of three independent non-executive Directors.

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

Hong Kong, 6 December 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.