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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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

BUSINESS REVIEW AND OUTLOOK

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is excited that the Group’s endeavour in building online communities has started to bear fruits in 2017. The full year results for the year ended 31 December 2017 spoke for itself as not only did the Group return to non-GAAP profitability, it also experienced substantially improved operating cash flow as it reversed to positive RMB336.9 million from negative RMB270.3 million last year, supported by the robust performance in both gaming and education businesses. The gaming business had a record year as its revenue increased by 38.2% year-over-year to a historical high of RMB1,672.9 million. Mobile games were the major growth driver, with revenue increasing 92.2% year-over-year, as the mobile versions of the two flagship IPs, Eudemons Online (魔域) and Heroes Evolved (英魂之刃), were well-received by gamers during the year.

The Group was also pleased by the remarkable growth of the education business. The education business recorded revenue of RMB2,105.3 million for the year of 2017, up 37.9% year-over-year. In overseas markets, the revenue increased by 32.0% year-over-year to RMB1,775.8 million on the back of solid performance in both the US and emerging markets as Promethean further solidified its global market leading position in K12 interactive classroom technologies. In China, the revenue surged by 82.2% year-over-year to RMB329.5 million as the Group scaled quickly across major provinces and cities. On the user front, the installed base of the flagship platform 101 Education PPT in China exceeded 1.2 million as at the end of 2017, as a result of the

aggressive rollout throughout the year. Looking forward, The Group expects to see substantial increase in the number of users as it continues to execute the strategies such that it will be one step closer to becoming the largest learning community globally.

Games Business

In the fourth quarter of 2017, the Group’s gaming business revenue grew by 25.5% year-over-year to RMB430.2 million, primarily driven by the strong 85.2% year-over-year growth in mobile gaming revenue. On the other hand, the Group saw a broad-based uptick of key operating metrics including 14.9% increase in Monthly Average Revenue Per User (“ARPU”), 27.2% increase in Active Paying Accounts (“APA”) and 37.8% increase in Monthly Active Users (“MAU”) on a year-over-year basis.

On a full year basis, the gaming business revenue increased by 38.2% year-over-year. The above-industry growth rate was driven by the dual strategy of IP value maximization and mobile extension. This strategy has led to thirteen consecutive growing quarters on a year-over-year basis for the gaming revenue. During the year of 2017, the flagship IP Eudemons Online (魔域) had another record year as its revenue reached a historical high of RMB1,367.3 million, up 48.2% year-over-year, on the back of new launches, new gaming modes as well as refined monetization strategies. In particular, the PC version of Eudemons Online (魔域) delivered eight months of monthly gross billings over RMB100 million during the year of 2017, while the pocket version of Eudemons Online (魔域) 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. With respect to new launches, the long-awaited flagship Eudemons Online Mobile (in partnership with Kingsoft) was officially launched in October 2017 and produced a gross billing of over RMB100 million in the first month of operation. The game did not disappoint as it was ranked as one of the “top five most outstanding app by billings” on Tencent Open Platform for four consecutive months from October 2017 to January 2018.

Heroes Evolved (英魂之刃), another flagship IP, sustained its strong momentum. Following the rapid user ramp-up of the pocket version of Heroes Evolved (英魂之刃) in the first half of 2017, the Group accelerated monetization in the second half of 2017 as the revenue of the pocket version of Heroes Evolved (英魂之刃) more than doubled in the second half of 2017 versus the first half of 2017. Since launch in December 2016, this game has been downloaded by over 150 million players and was ranked as one of the “top three downloaded mobile games” on Tencent Open Platform for nine consecutive months in 2017.

Looking forward, the Group will continue to maximize the IP values by introducing new games and new game-play features. After launching several new games in 2017, the Group expects to launch multiple new games in 2018, with focus on mobile games. Finally, the Group will leverage the cutting-edge VR and AR technologies in order to bring unique gaming experience to gamers.

Education Business

For the fourth quarter of 2017, revenue from the education business was RMB575.3 million, a 53.8% increase year-over-year. In overseas markets, the Group recorded revenue of RMB380.4 million during the fourth quarter of 2017, up 31.4% from the same period of 2016. The Group solidified the number one international market share leadership position in K12 interactive technologies as it continued to gain market share in the major markets, particularly in Americas and EMEA regions.

The traction along One Belt One Road countries remained strong. On top of materializing the phase one order of the City of Moscow during the year of 2017, the Group is pleased to be the chosen partner again for the second phase of the multi-year Moscow Online School project. The second phase of the project is set to equip over 13,000 classrooms throughout the City of Moscow with the interactive learning technologies, a substantial increase compared with 7,600 classrooms in phase one. In addition, the Group is also the front runner of several multi-phase tenders in other emerging countries as it embraces the latest education technologies. In particular, the Group continues to see Turkey and Malaysia presenting significant revenue opportunities. Most importantly, Promethean achieved positive EBITDA of RMB53.0 million in 2017, a remarkable turnaround from the negative EBITDA of RMB50.6 million in 2016, as a result of the ongoing effort to drive revenue growth and rationalize costs aggressively following the acquisition in November 2015.

In China, the Group recorded revenue of RMB194.9 million in the fourth quarter of 2017, more than doubled from the same period of 2016, as a big portion of the contracted sales in previous quarters were recognized during the quarter of 2017. As at the end of the fourth quarter of 2017, the China sales backlog, representing signed sales orders to be delivered to or validated by the customers, was RMB279.3 million. Of which, RMB99.8 million of contracted sales covering 31 provinces or cities were signed during the fourth quarter of 2017. The Group believed the rising traction is a validation of the products in the domestic market.

On the other hand, the Group is also pleased to see the tremendous progress in terms of user scaling. As at the end of 2017, the Group had over 1.2 million installations for the flagship software platform 101 Education PPT in China. This is on the back of the successful user acquisition strategy which adopts various ways of scaling users, including launching teacher training programs nationwide, hosting courseware contests in targeted cities and provinces, as well as working closely with education bureaus. With this critical mass of installed teachers in China, the Group will focus on increasing user engagement and stickiness, as it aims to make 101 Education PPT the platform of choice for delivery of digital classroom and content distribution in China.

In the overseas markets, the Group currently has an estimated 2 million teachers using the ActivInspire desktop software. The Group has embarked on a product effort to develop platform capabilities that will augment ActivInspire with features to drive online engagement. These include new teaching tools, use of mobility as well as collaboration and sharing functions. This additional value will offer compelling reasons for the millions of teachers using ActivInspire to move into an online world where they can easily engage with students and create a rich collaborative learning environment. Together with the award-winning ClassFlow™ software, the Group will bring a truly connected interactive classroom experience to the estimated installed base of over 1.3 million classrooms, therefore enabling teachers and students to interact in an online, collaborative community where the Group expects to see significant online monetization opportunities. The Group also launched a closed beta version of the social commerce platform in December 2017 and it received highly positive feedback from teachers.

Looking forward, with the leading interactive classroom technologies and internet platform capabilities, the Group expects the rapid digitization of classrooms around the world will remain a huge tailwind for the business. The Group thanks all the shareholders for the support and it is excited about the huge potential of value creation for the shareholders in the coming years as it is now one step closer to becoming the world's largest learning community.

FINANCIAL HIGHLIGHTS

2017 Q4 Financial Highlights

- Revenue was RMB1,031.8 million, representing a 39.4% increase year-over-year.
- Revenue from the games business was RMB430.2 million, representing 41.7% of the Group's total revenue, registered a 25.5% increase year-over-year.
- Revenue from the education business was RMB575.3 million, representing 55.8% of the Group's total revenue, registered a 53.8% increase year-over-year.
- Gross profit was RMB561.6 million, representing a 33.4% increase year-over-year.
- Core segmental profit¹ from the games business was RMB161.9 million, representing a 65.4% increase year-over-year.
- Core segmental loss¹ from the education business was RMB126.3 million, representing a 20.0% decrease year-over-year.
- Non-GAAP² operating profit was RMB8.1 million, compared to non-GAAP² operating loss of RMB67.2 million for the same period last year.
- Loss attributable to owners of the Company was RMB51.7 million, compared to loss attributable to owners of the Company RMB94.4 million for the same period last year.

Fiscal Year 2017 Financial Highlights

- Revenue was RMB3,867.6 million, representing a 38.5% increase year-over-year.
- Revenue from the games business was RMB1,672.9 million, representing 43.3% of the Group's total revenue, registered a 38.2% increase year-over-year.
- Revenue from the education business was RMB2,105.3 million, representing 54.4% of the Group's total revenue, registered a 37.9% increase year-over-year.
- Gross profit was RMB2,179.8 million, representing a 37.1% increase year-over-year.
- Core segmental profit¹ from the games business was RMB675.1 million, representing an 81.6% increase year-over-year.
- Core segmental loss¹ from the education business was RMB423.3 million, representing a 12.7% decrease year-over-year.
- Non-GAAP² operating profit was RMB68.3 million, a significant turnaround compared to non-GAAP² operating loss of RMB239.8 million for last year.
- Loss attributable to owners of the Company was RMB20.8 million, compared to loss attributable to owners of the Company of RMB202.7 million for last year.
- The Board of Directors proposed a final dividend of HK\$0.10 per share, subject to approval by shareholders in the coming Annual General Meeting.

Segmental Financial Highlights

2017 Q4

(RMB'000)	FY2017 Q4		FY2017 Q3		FY2016 Q4	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	430,224	575,278	440,229	595,935	342,711	374,029
Gross profit	400,189	148,328	409,997	168,175	317,256	101,256
Gross margin	93.0%	25.8%	93.1%	28.2%	92.6%	27.1%
Core segmental profit (loss) ¹	161,946	(126,266)	179,061	(107,850)	97,898	(157,737)
Segmental operating expenses ³						
- Research and development	(124,006)	(95,779)	(112,645)	(107,346)	(107,229)	(109,949)
- Selling and marketing	(49,015)	(115,668)	(53,838)	(107,673)	(44,623)	(93,710)
- Administrative	(73,111)	(47,601)	(70,675)	(42,753)	(73,307)	(41,584)

Fiscal Year 2017

(RMB'000)	FY2017		FY2016		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	1,672,858	2,105,290	1,210,034	1,526,298	38.2%	37.9%
Gross profit	1,565,359	589,675	1,127,851	455,431	38.8%	29.5%
Gross margin	93.6%	28.0%	93.2%	29.8%	0.4%	(1.8)%
Core segmental profit (loss) ¹	675,117	(423,340)	371,678	(485,176)	81.6%	(12.7)%
Segmental operating expenses ³						
- Research and development	(439,811)	(386,916)	(357,916)	(384,904)	22.9%	0.5%
- Selling and marketing	(199,971)	(415,392)	(155,098)	(358,431)	28.9%	15.9%
- Administrative	(277,695)	(159,156)	(262,403)	(152,195)	5.8%	4.6%

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, amortisation of intangible assets arising on acquisition of subsidiaries, impairment loss on available-for-sale investment, write off of inventories, impairment loss on property held for sale, impairment of property, plant and equipment and provision for product impairment.

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 fourth quarter of 2017, the third quarter of 2017 and the fourth quarter of 2016:

	Three months ended		
	31 December	30 September	31 December
	2017 <i>(Unaudited)</i> RMB'000	2017 <i>(Unaudited)</i> RMB'000	2016 <i>(Unaudited)</i> RMB'000
Revenue	1,031,771	1,060,602	740,015
Cost of revenue	<u>(470,173)</u>	<u>(475,716)</u>	<u>(318,982)</u>
Gross profit	561,598	584,886	421,033
Other income and gains	49,125	9,315	77,795
Selling and marketing expenses	(168,974)	(163,252)	(139,852)
Administrative expenses	(203,136)	(186,571)	(195,168)
Development costs	(223,164)	(224,661)	(220,982)
Other expenses and losses	(63,553)	(20,222)	(27,620)
Share of losses of associates	(272)	(144)	(148)
Share of loss of a joint venture	(416)	(98)	—
Provision for product impairment	—	—	<u>(77,774)</u>
Operating loss	(48,792)	(747)	(162,716)
Interest income on pledged bank deposits	927	925	—
Exchange gain (loss) on pledged bank deposit, secured bank borrowings and convertible preferred shares	1,455	(84)	(11,942)
Net (loss) gain on convertible preferred shares	(9,698)	5,545	60,240
Net gain on disposal of held-for-trading investment	—	—	253
Net gain on held-for-trading investment	—	—	8,880
Finance costs	<u>(2,878)</u>	<u>(2,804)</u>	<u>(1,955)</u>
(Loss) profit before taxation	(58,986)	2,835	(107,240)
Taxation	<u>(12,329)</u>	<u>(13,370)</u>	<u>(10,966)</u>
Loss for the period	<u>(71,315)</u>	<u>(10,535)</u>	<u>(118,206)</u>
(Loss) profit for the period attributable to:			
- Owners of the Company	(51,714)	5,094	(94,413)
- Non-controlling interests	<u>(19,601)</u>	<u>(15,629)</u>	<u>(23,793)</u>
	<u>(71,315)</u>	<u>(10,535)</u>	<u>(118,206)</u>

2017 FOURTH QUARTER GAMING OPERATIONAL METRICS

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

	Three months ended				
	31 December 2017	30 September 2017	30 June 2017	31 March 2017	31 December 2016
PCU	762,000	727,000	701,000	736,000	740,000
ACU	335,000	362,000	325,000	310,000	336,000

Note: As at 31 December 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 RMB424, a 14.9% increase year-over-year.
 - ACU for online and mobile games was approximately 335,000, which was flat year-over-year.
 - PCU for online and mobile games was approximately 762,000, a 3.0% increase year-over-year.
- (2) Active paying accounts were approximately 752,000, a 27.2% increase year-over-year.
- (3) Monthly active users were approximately 13,321,000, a 37.8% increase year-over-year.

RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company announced the audited consolidated financial results of the Group for the year ended 31 December 2017 together with the comparative figures in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	<i>NOTES</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue	4	3,867,623	2,793,103
Cost of revenue		<u>(1,687,860)</u>	<u>(1,203,234)</u>
Gross profit		2,179,763	1,589,869
Other income and gains	4	95,965	163,018
Selling and marketing expenses		(624,716)	(519,662)
Administrative expenses		(734,560)	(720,967)
Development costs		(844,076)	(759,932)
Other expenses and losses		(100,981)	(61,134)
Share of losses of associates		(822)	(862)
Share of loss of a joint venture		(567)	—
Provision for product impairment		<u>—</u>	<u>(77,774)</u>
Operating loss		(29,994)	(387,444)
Interest income on pledged bank deposits		2,558	—
Exchange gain (loss) on pledged bank deposit, secured bank borrowings and convertible preferred shares		3,250	(21,824)
Net gain on convertible preferred shares		2,809	193,357
Net gain on disposal of held-for-trading investment		35	253
Net gain on held-for-trading investment		23	15,546
Finance costs	5	<u>(10,409)</u>	<u>(8,650)</u>
Loss before taxation		(31,728)	(208,762)
Taxation	7	<u>(57,209)</u>	<u>(28,022)</u>
Loss for the year		<u>(88,937)</u>	<u>(236,784)</u>

	<i>NOTE</i>	2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income (expense) for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		9,174	(82,667)
Fair value loss on available-for-sale investment		(17,385)	(11,302)
Release of reserve upon impairment of available-for-sale investment		<u>28,687</u>	<u>—</u>
Other comprehensive income (expense) for the year		<u>20,476</u>	<u>(93,969)</u>
Total comprehensive expense for the year		<u>(68,461)</u>	<u>(330,753)</u>
Loss for the year attributable to:			
- Owners of the Company		(20,843)	(202,742)
- Non-controlling interests		<u>(68,094)</u>	<u>(34,042)</u>
		<u>(88,937)</u>	<u>(236,784)</u>
Total comprehensive expense attributable to:			
- Owners of the Company		(3,168)	(284,391)
- Non-controlling interests		<u>(65,293)</u>	<u>(46,362)</u>
		<u>(68,461)</u>	<u>(330,753)</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Loss per share	9		
- Basic		(4.12)	(40.93)
- Diluted		<u>(4.12)</u>	<u>(40.93)</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	<i>NOTE</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,373,026	1,284,494
Prepaid lease payments		515,299	509,018
Investment properties		64,532	57,964
Intangible assets		715,578	722,498
Interests in associates		15,961	16,783
Interest in a joint venture		17,433	—
Available-for-sale investments		10,859	17,883
Loan receivables		18,410	20,477
Trade receivables	10	3,912	11,490
Restricted bank deposit		5,000	—
Deposits made for acquisition of property, plant and equipment		7,441	14,585
Goodwill		388,675	338,237
Deferred tax assets		4,160	3,445
		<u>3,140,286</u>	<u>2,996,874</u>
Current assets			
Properties under development		160,141	55,429
Property held for sale		9,213	—
Inventories		106,430	125,285
Prepaid lease payments		9,866	6,003
Loan receivables		4,662	13,712
Trade receivables	10	380,072	351,693
Amounts due from customers for contract work		16,522	10,640
Other receivables, prepayments and deposits		255,948	121,564
Amount due from a related company		1,704	1,704
Amounts due from associates		5,264	8,561
Amount due from a joint venture		159	—
Tax recoverable		1,497	3,281
Held-for-trading investment		—	151,783
Restricted bank balances		20,332	—
Pledged bank deposits		145,084	411
Bank deposits		—	55,496
Bank balances and cash		<u>1,578,477</u>	<u>876,532</u>
		<u>2,695,371</u>	<u>1,782,094</u>

	<i>NOTES</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Current liabilities			
Trade and other payables	11	680,736	531,757
Amounts due to customers for contract work		1,691	988
Provisions		41,246	45,876
Deferred income		95,531	84,567
Amount due to a related company		1,400	978
Amounts due to associates		305	4,558
Secured bank borrowings	12	146,132	29,000
Promissory note	13	46,226	—
Income tax payable		23,339	18,364
		<u>1,036,606</u>	<u>716,088</u>
Net current assets		<u>1,658,765</u>	<u>1,066,006</u>
Total assets less current liabilities		<u>4,799,051</u>	<u>4,062,880</u>
Non-current liabilities			
Other payables		2,693	5,582
Provisions		—	1,702
Convertible preferred shares		95,249	104,101
Secured bank borrowings	12	86,582	—
Deferred tax liabilities		130,466	123,218
		<u>314,990</u>	<u>234,603</u>
Net assets		<u>4,484,061</u>	<u>3,828,277</u>
Capital and reserves			
Share capital		39,094	36,571
Share premium and reserves		4,510,073	3,817,258
Equity attributable to owners of the Company		4,549,167	3,853,829
Non-controlling interests		<u>(65,106)</u>	<u>(25,552)</u>
		<u>4,484,061</u>	<u>3,828,277</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 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 year	—	—	—	—	—	—	—	—	—	—	—	—	(202,742)	(202,742)	(34,042)	(236,784)
Other comprehensive expense for the year	—	—	—	—	—	—	—	—	—	—	(70,347)	(11,302)	—	(81,649)	(12,320)	(93,969)
Total comprehensive expense for the year	—	—	—	—	—	—	—	—	—	—	(70,347)	(11,302)	(202,742)	(284,391)	(46,362)	(330,753)
Repurchase and cancellation of shares	(446)	(101,220)	446	—	—	—	—	—	—	—	—	—	(446)	(101,666)	—	(101,666)
Shares issued upon exercise of share options	220	23,201	—	—	—	—	—	—	—	(6,901)	—	—	—	16,520	—	16,520
Shares issued upon acquisition of subsidiaries	71	20,805	—	—	—	—	—	—	—	—	—	—	—	20,876	—	20,876
Contributions from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3,723	3,723
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	4,020	—	—	—	4,020	—	4,020
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,133	(3,355)	—	—	2,222	—	—	—
Deemed disposal of subsidiaries to non-controlling shareholders	—	—	—	(2,585)	—	—	—	—	—	—	—	—	—	(2,585)	8,377	5,792
Dividend paid to non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,115)	(1,115)
Acquisition of additional equity interests from non-controlling interests	—	—	—	(8,708)	—	—	—	—	—	—	—	—	—	(8,708)	(104)	(8,812)
Acquisition of a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	—	138	138
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)
Final dividend for 2016 proposed	—	—	—	—	—	—	44,374	—	—	—	—	—	(44,374)	—	—	—
Transfers	—	—	—	—	—	32,150	—	—	—	—	—	—	(32,150)	—	—	—
	(155)	(57,214)	446	(11,294)	—	32,150	(5,393)	—	1,133	(6,236)	—	—	(109,063)	(155,626)	11,019	(144,607)
At 31 December 2016	36,571	830,126	6,155	28,170	10,035	292,864	44,374	22,449	(2,120)	20,357	(118,365)	(11,302)	2,694,515	3,853,829	(25,552)	3,828,277
Loss for the year	—	—	—	—	—	—	—	—	—	—	—	—	(20,843)	(20,843)	(68,094)	(88,937)
Other comprehensive income for the year	—	—	—	—	—	—	—	—	—	—	6,373	11,302	—	17,675	2,801	20,476
Total comprehensive income (expense) for the year	—	—	—	—	—	—	—	—	—	—	6,373	11,302	(20,843)	(3,168)	(65,293)	(68,461)
Repurchase and cancellation of shares	(201)	(48,946)	201	—	—	—	—	—	—	—	—	—	(201)	(49,147)	—	(49,147)
Shares issued upon exercise of share options	169	15,906	—	—	—	—	—	—	—	(4,983)	—	—	—	11,092	—	11,092
Issued new shares	2,555	818,366	—	—	—	—	—	—	—	—	—	—	—	820,921	—	820,921
Contributions from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	26,382	26,382
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	5,014	—	—	—	5,014	—	5,014
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,168	(3,754)	—	—	2,586	—	—	—
Deemed disposal of subsidiaries to non-controlling shareholders	—	—	—	1,975	—	—	—	—	—	—	—	—	—	1,975	(1,975)	—
Acquisition of additional equity interests from non-controlling interests	—	—	—	(3,754)	—	—	—	—	—	—	—	—	—	(3,754)	1,332	(2,422)
Final dividend for 2016 paid	—	—	—	—	—	—	(44,374)	—	—	—	—	—	(84)	(44,458)	—	(44,458)
Interim dividend for 2017 declared and paid	—	—	—	—	—	—	—	—	—	—	—	—	(43,137)	(43,137)	—	(43,137)
Final dividend for 2017 proposed	—	—	—	—	—	—	44,661	—	—	—	—	—	(44,661)	—	—	—
Transfers	—	—	—	—	—	43,542	—	—	—	—	—	—	(43,542)	—	—	—
	2,523	785,326	201	(1,779)	—	43,542	287	—	1,168	(3,723)	—	—	(129,039)	698,506	25,739	724,245
At 31 December 2017	39,094	1,615,452	6,356	26,391	10,035	336,406	44,661	22,449	(952)	16,634	(111,992)	—	2,544,633	4,549,167	(65,106)	4,484,061

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>336,913</u>	<u>(270,316)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(342,596)	(203,687)
Placement of pledged bank deposits	(145,089)	(411)
Purchase of intangible assets	(37,552)	(25,732)
Purchase of prepaid lease payments	(23,355)	(118,623)
Placement of restricted bank balances	(20,332)	—
Investment in a joint venture	(18,000)	—
Purchase of property held for sale	(11,238)	—
Deposits paid for acquisition of property, plant and equipment	(10,583)	(12,882)
Purchase of available-for-sale investment	(10,361)	(24,185)
Advance of loan receivables	(6,817)	(12,557)
Placement of restricted bank deposit	(5,000)	—
Acquisitions of additional equity interests from non-controlling interests	(2,422)	(8,812)
Acquisitions of subsidiaries	(2,365)	(9,579)
Withdrawal of bank deposits	54,858	1,087,997
Repayment of loan receivables	17,315	5,426
Interest received	8,360	26,054
Refund of deposit paid for acquisition of property, plant and equipment	5,000	—
Proceeds from disposal of property, plant and equipment	1,751	19,285
Withdrawal of pledged bank deposit	393	—
Placement of bank deposits	—	(552,361)
Proceeds from disposal of assets classified as held for sale	<u>—</u>	<u>4,192</u>
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(548,033)</u>	<u>174,125</u>

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
FINANCING ACTIVITIES		
New bank borrowings raised	1,679,758	1,612,656
Proceeds from issue of ordinary shares	820,921	—
Contribution from non-controlling shareholders	22,285	3,723
Proceeds from shares issued upon exercise of share options	11,091	16,520
Repayment of bank and other borrowings	(1,472,732)	(1,616,868)
Dividends paid	(87,595)	(84,083)
Payment for repurchase of shares	(49,147)	(101,666)
Dividend paid to non-controlling interest of a subsidiary	—	(1,115)
Payment for repurchase of convertible preferred shares	<u>—</u>	<u>(53)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>924,581</u>	<u>(170,886)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	713,461	(267,077)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	876,532	1,126,957
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(11,516)</u>	<u>16,652</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	<u>1,578,477</u>	<u>876,532</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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 Company and its subsidiaries 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 consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance (Cap 622 of the laws of Hong Kong).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatory effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²

Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

4. REVENUE, OTHER INCOME AND GAINS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue		
Online game revenue	1,672,858	1,210,034
Education revenue	2,105,290	1,526,298
Mobile solution, products and marketing revenue	<u>89,475</u>	<u>56,771</u>
	<u>3,867,623</u>	<u>2,793,103</u>
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Other income and gains		
Gain on fair value changes of investment properties	10,726	—
Government grants (<i>Note</i>)	61,591	87,798
Interest income	7,066	17,502
Donation	540	—
Net foreign exchange gain	—	16,760
Net gain on disposal of property, plant and equipment	—	7,637
Game implementation income	5,413	8,158
Gain on disposal of assets classified as held for sale	—	1,601
Rental income, net of negligible outgoing expenses	6,803	6,570
Server rental income	290	662
Reversal of allowance for doubtful debts	572	3,051
Others	<u>2,964</u>	<u>13,279</u>
	<u>95,965</u>	<u>163,018</u>

Note: Government grants were received from the government of 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. FINANCE COSTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on bank borrowings	5,918	5,115
Interest on promissory note	1,068	—
Other interest expense	<u>3,423</u>	<u>3,535</u>
	<u>10,409</u>	<u>8,650</u>

6. 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:

2017

	Online game <i>RMB'000</i>	Education <i>RMB'000</i>	Mobile solution, products and marketing <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>1,672,858</u>	<u>2,105,290</u>	<u>89,475</u>	<u>3,867,623</u>
Segment profit (loss)	<u>807,912</u>	<u>(491,711)</u>	<u>(2,406)</u>	313,795
Unallocated income and gains				19,434
Unallocated expenses and losses				(364,980)
Net gain on held-for-trading investment				<u>23</u>
Loss before taxation				<u>(31,728)</u>

2016

	Online game <i>RMB'000</i>	Education <i>RMB'000</i>	Mobile solution, products and marketing <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>1,210,034</u>	<u>1,526,298</u>	<u>56,771</u>	<u>2,793,103</u>
Segment profit (loss)	<u>168,497</u>	<u>(82,499)</u>	<u>(22,115)</u>	63,883
Unallocated income and gains				22,250
Unallocated expenses and losses				(310,441)
Net gain on held-for-trading investment				<u>15,546</u>
Loss before taxation				<u>(208,762)</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by or loss incurred from each segment without allocation of share-based payments expense, net gain on held-for-trading investments, net gain on disposal of held-for-trading investments, income tax expenses, and unallocated income, gains, expenses and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Online game	2,377,169	2,191,394
Education	2,257,793	1,802,731
Mobile solution, products and marketing	<u>200,240</u>	<u>195,575</u>
Total segment assets	4,835,202	4,189,700
Unallocated	<u>1,000,455</u>	<u>589,268</u>
	<u>5,835,657</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, certain bank deposits and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

Geographical information

The Group's operations are mainly located in the PRC, the United States of America ("USA") and the United Kingdom ("UK").

The Group's revenue from external customers by geographical location of the operations are detailed below:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	1,890,481	1,300,127
USA	1,032,998	842,043
Hong Kong	86,881	53,011
Russia	236,880	18,787
UK	153,290	166,418
Germany	68,542	54,310
France	49,143	48,578
Australia	50,810	32,858
Italy	25,827	29,332
Ireland	23,896	13
Netherlands	18,164	26,060
Turkey	26	23,056
Others	<u>230,685</u>	<u>198,510</u>
	<u>3,867,623</u>	<u>2,793,103</u>

The Group's non-current assets, excluding available-for-sale investments, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	1,947,947	1,899,480
UK	773,642	783,495
Hong Kong	309,040	264,858
USA	74,668	6,954
France	135	238
Germany	265	17
Thailand	<u>1,160</u>	<u>27</u>
	<u>3,106,857</u>	<u>2,955,069</u>

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2017 and 2016.

7. TAXATION

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
The tax charge comprises:		
Hong Kong Profits Tax		
- Current year	6,209	4,751
- Under provision in prior years	<u>230</u>	<u>—</u>
	<u>6,439</u>	<u>4,751</u>
PRC Enterprise Income Tax (“EIT”)		
- Current year	55,450	43,484
- Withholding tax	6,419	198
- Under (over) provision in prior years	<u>60</u>	<u>(143)</u>
	<u>61,929</u>	<u>43,539</u>
Taxation in other jurisdiction		
- Current year	1,441	593
- Over provision in prior years	<u>(2,788)</u>	<u>(8,536)</u>
	<u>(1,347)</u>	<u>(7,943)</u>
Deferred tax		
- Origination and reversal of temporary differences	(525)	177
- Crystallisation of deferred tax on intangible assets	<u>(9,287)</u>	<u>(12,502)</u>
	<u>(9,812)</u>	<u>(12,325)</u>
	<u><u>57,209</u></u>	<u><u>28,022</u></u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

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

For the year ended 31 December 2017, the USA income tax rates applicable to a subsidiary incorporated in the USA is 39% (2016: 39%) for federal tax and 8.84% (2016: 8.84%) for state income tax.

The United Kingdom Finance Act 2016 included a reduction in the United Kingdom Corporation tax rate from 20% to 19% effective from the finance 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 (for the year ended 31 December 2016: 20%).

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

8. DIVIDENDS

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends recognised as distribution during the year:		
2017 Interim - HK\$0.10 (2016: 2016 Interim dividend of HK\$0.10) per share	43,137	42,494
2016 Final - HK\$0.10 (2016: 2015 Final dividend of HK\$0.10) per share	<u>44,458</u>	<u>41,589</u>
	<u>87,595</u>	<u>84,083</u>

The final dividend of HK\$0.10 (2016: HK\$0.10) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB44,661,000 (2016: RMB44,374,000).

9. LOSS PER SHARE

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the purpose of basic and diluted loss per share:		
- loss for the year attributable to the owners of the Company	<u>(20,843)</u>	<u>(202,742)</u>
	Number of shares	
	2017	2016
	'000	'000
Weighted average number of shares in issue during the year for the purpose of basic loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>506,081</u>	<u>495,385</u>

Note: The calculation of diluted loss per share for the year ended 31 December 2017 and 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 decrease in loss per share.

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.

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade debtors		
0 - 30 days	227,847	219,717
31 - 60 days	81,630	72,091
61 - 90 days	29,269	26,646
Over 90 days	29,509	25,980
Receivables with extended credit terms		
Due within one year	11,817	7,259
Due after one year	<u>3,912</u>	<u>11,490</u>
	<u>383,984</u>	<u>363,183</u>

Before accepting any new agent/customer, the Group uses an internal credit assessment policy to assess the potential agent/customer's credit quality and define credit limits by agent/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB78,909,000 (2016: RMB81,315,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
31 - 60 days	34,026	40,622
61 - 90 days	15,977	14,167
Over 90 days	<u>28,906</u>	<u>26,526</u>
Total	<u>78,909</u>	<u>81,315</u>

Movement in the allowance for doubtful debts

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
At beginning of year	13,630	14,600
Allowances recognised on receivables	847	6,794
Allowances reversed during the year	(572)	(3,051)
Allowances written off	(7,054)	(5,202)
Exchange differences	<u>(368)</u>	<u>489</u>
At end of year	<u>6,483</u>	<u>13,630</u>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB6,483,000 (2016: RMB13,630,000) of which the debtors have been in dispute with the Group.

11. TRADE AND OTHER PAYABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade payables	242,169	215,844
Accrued staff costs	183,284	161,940
Receipt in advance	100,006	32,179
Other tax payables	26,476	16,622
Other payables and accruals (Note)	<u>128,801</u>	<u>105,172</u>
	<u>680,736</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.

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	230,001	165,030
91 - 180 days	7,931	49,629
181 - 365 days	2,288	141
Over 365 days	<u>1,949</u>	<u>1,044</u>
	<u>242,169</u>	<u>215,844</u>

12. SECURED BANK BORROWINGS

During the year, the Group obtained new bank borrowings amounting to RMB1,679,758,000 (31 December 2016: RMB1,612,656,000). The secured bank borrowings carry interest at (i) interest rate of 200 to 250 basis points over one-month London Inter-Bank Offer Rate (“LIBOR”) per annum, (ii) the higher of one-month LIBOR plus 0.66% or 2.5% per annum, (iii) one-month Hong Kong Inter-Bank Offer Rate plus 1.5% or 2.2% per annum, (iv) interest rate of 4.85% to 4.95% per annum and (v) interest rate of 5.20% per annum, and are repayable from 2018 to 2022. The borrowings were secured by share pledges over the shares of a subsidiary of the Group and fixed and floating charges over the assets of certain subsidiaries, a pledged bank deposit, a pledge of property of a subsidiary, corporate guarantee provided by the Company and corporate guarantee provided by subsidiaries.

13. PROMISSORY NOTE

On 1 July 2017, Digital Train Limited, a subsidiary of the Company has issued a promissory note with a total principal amount of USD7,075,000 (equivalent to approximately RMB47,946,000) to third parties, which carried interest at twelve-month LIBOR plus 2.5% per annum and had maturity in July 2018.

	2017
	<i>RMB'000</i>
Issue of promissory note	47,946
Exchange adjustments	<u>(1,720)</u>
At 31 December	<u>46,226</u>

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2017, the Group had pledged bank deposits, restricted bank deposit, bank deposit, restricted bank balances and bank balances and cash of approximately RMB1,748.9 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 31 December 2017, total bank borrowings of the Group amounted to approximately RMB232.7 million (31 December 2016: RMB29.0 million) in which an amount of RMB225.2 million was floating-rate loans and the remaining balance was fixed-rate loans, and were secured by share pledges over the shares of a subsidiary and fixed and floating charges over the assets of certain subsidiaries, a pledged bank deposit, a pledge of property of a subsidiary, and corporate guarantee provided by the Company and subsidiaries.

As at 31 December 2017, the Group had net current assets of approximately RMB1,658.8 million as compared with approximately RMB1,066.0 million as at 31 December 2016.

STAFF INFORMATION

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

	At 31 December 2017	At 30 September 2017	At 31 December 2016
Research and development	3,836	3,833	3,468
Selling and marketing	1,384	1,342	1,221
Accounting, finance and general administration	948	918	1,008
Production	278	270	244
Total	<u>6,446</u>	<u>6,363</u>	<u>5,941</u>

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

As at 31 December 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) (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 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)	47.88%
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)	47.88%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	255,822,457 (L)	47.88%
Zheng Hui (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 (Note 1)	Approximate percentage of shareholding
Chen Hongzhan (Note 5)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.10%
Chao Guowei, Charles (Note 6)	The Company	Beneficial owner	918,000 (L)	0.17%
Lee Kwan Hung (Note 7)	The Company	Beneficial owner	1,112,519 (L)	0.21%
Liu Sai Keung, Thomas (Note 8)	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 35.76% 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 5.28% 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 3.56% 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 2.61% 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 47.88% 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 2.10% 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 31 December 2017, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 31 December 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 (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	35.76%
IDG Group (Note 2)	The Company	Beneficial owner	78,333,320 (L)	14.66%
Ho Chi Sing (Note 2)	The Company	Through controlled corporations	78,333,320 (L)	14.66%
Zhou Quan (Note 2)	The Company	Through controlled corporations	73,490,095 (L)	13.75%
First Elite Group Limited (Note 3)	The Company	Beneficial owner and through controlled corporation	26,541,819 (L)	4.97%
Jardine PTC Limited (Note 3)	The Company	Trustee	26,541,819 (L)	4.97%

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 2.03%, 9.73%, 1.99% and 0.91% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. First Elite Group Limited is interested in 197,019 shares directly held by it and 26,344,800 shares held by Richmedia Holdings Limited, a company wholly-owned by First Elite Group Limited. First Elite Group Limited is in turn controlled by Jardine PTC Limited, which held relevant interest in trust for Liu Luyuan.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 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 year ended 31 December 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	31 December 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	—	138,085	—	359,367
	22.07.2011	4.60	58,950	—	50,950	—	8,000
	23.04.2012	5.74	474,294	—	298,577	—	175,717
	06.07.2012	6.53	246,326	—	182,126	64,200	0
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	370,250	—	79,775	13,200	277,275
	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>2,453,513</u>	<u>77,400</u>	<u>2,817,109</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 year 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 31 December 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 31 December 2017, a total of 218,212 awarded shares were vested by the Directors.

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

Best Assistant Education Online Limited (“Best Assistant”)

On 7 August 2012, Best Assistant adopted a share award scheme as amended on 13 February 2015 (the “Best Assistant Share Award Scheme”) in which selected participants include senior management employees of Best Assistant and/or its

subsidiaries (“Best Assistant Group”), consultants to Best Assistant Group employed by any member of the Company, its associated companies or their subsidiaries (excluding Best Assistant Group) and any person who contributes to the development of Best Assistant Group which has been certified and determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

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

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

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

As at 31 December 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 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 12.20% 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 87.54% to approximately 79.19%.

As at 31 December 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 year ended 31 December 2017.

FINAL DIVIDEND

At the Board meeting held on Thursday, 22 March 2018, it was proposed that a final dividend of HKD0.10 per share for the year ended 31 December 2017, amounting to approximately RMB44,661,000 be paid on or before Wednesday, 20 June 2018 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Wednesday, 30 May 2018. The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (the "2018 AGM") to be held on Thursday, 24 May 2018.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2018 AGM

The Company's register of members will be closed from Friday, 18 May 2018 to Thursday, 24 May 2018, both days inclusive, during which time no transfer of shares will be registered. In order to ensure that the shareholders are entitled to attend and vote at the AGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to 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 by no later than 4:30 p.m. on Thursday, 17 May, 2018 for registration of the relevant transfer.

(b) For determining the entitlement to the proposed final dividend

The Board has recommended the payment of a final dividend of HKD0.10 per share for the year ended 31 December 2017 to shareholders whose names appear on the register of members of the Company on Wednesday, 30 May 2018 subject

to the approval of the shareholders of the Company at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 30 May 2018 to Thursday, 31 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, 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 for registration not later than 4:30 p.m. on Tuesday, 29 May 2018.

PUBLICATION OF FINAL RESULTS AND 2017 ANNUAL REPORT

The final results announcement of the Company is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ir.nd.com.cn>). The annual report will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ir.nd.com.cn>) in due course.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Thursday, 24 May 2018. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

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 year 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.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2017 as set out in the results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the results announcement.

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 audited consolidated financial statements for the year ended 31 December 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 year ended 31 December 2017, the Company bought back a total of 3,184,500 shares on the Stock Exchange at an aggregate consideration of HKD65,418,320 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 HKD
		Highest HKD	Lowest HKD	
January 2017	729,000	22.80	21.35	16,168,975
December 2017	<u>2,455,500</u>	<u>21.50</u>	<u>19.88</u>	<u>49,249,345</u>

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

Hong Kong, 22 March 2018

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.