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## **NetDragon Websoft Holdings Limited**

**網龍網絡控股有限公司**

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

**(Stock Code: 777)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018**

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

NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) is excited that it delivered an excellent first half in 2018. Revenue reached another semi-annual record-high at RMB2,469.9 million with 39.1% year-over-year growth, while profit attributable to shareholders surged by more than six times to RMB200.7 million from RMB25.8 million in 2017. These remarkable numbers were underpinned by the strong execution in both gaming and education segments.

The gaming business maintained its solid growth momentum in the first half of 2018. Mobile games were a major growth driver, with revenue increasing 53.4% year-over-year. PC games also performed well with 25.0% year-over-year growth. It is the strategy of the Company to maximize IP values continued to bear fruit in the first half of 2018. The Group also made great progress in development of the new games as the current pipeline remains very strong. As the Group continues to execute the strategy to maximize IP values, the Group is also looking to accelerate the growth further by expanding the IP portfolio, both organically and by working with the partners.

The Group is also excited by the tremendous growth of the education business. In overseas, the interactive classroom product offerings continued to expand their penetration rapidly in both developed and emerging countries. As a result, the subsidiary Promethean continued to grow its revenue at a rate faster than the market, and in doing so has maintained its global market leader position in K-12 interactive classroom technologies in the first half of 2018. The Group is also pleased to

complete the acquisition of Edmodo, Inc. (“Edmodo”) in May 2018. With Edmodo joining the family, the Company is in a unique position to offer a complete product portfolio that covers pre-class, in-class and after-class learning environments anywhere and at anytime. More importantly, the online community has accumulated more than 90 million of registered users, laying solid foundations for future monetization.

In China, revenue rose by 35.4% year-over-year to RMB105.6 million as the Group continued to drive increasing adoption of the software platforms. On the user front, the installed base of the flagship platform 101 Education PPT in China exceeded 2.3 million in June 2018, almost doubled from over 1.2 million at the end of 2017, with coverage of 31 provinces across China.

### **Gaming Business**

The gaming business revenue grew by 29.5% year-over-year to a record-high RMB1,039.3 million in the first half of 2018. Mobile game continued to perform very well with 53.4% year-over-year growth. PC games also remained robust with 25.0% year-over-year revenue growth. With strong top line growth, gaming’s core segmental profit jumped by 56.9% year-over-year.

The flagship IP Eudemons (魔域) was a significant contributor to the growth in the first half of 2018 with 37.8% year-over-year increase in revenue. In particular, its PC version recorded monthly gross billings over RMB100 million in five out of six months during the first half of 2018 while the newly launched mobile version continued to be well-received.

Heroes Evolved (英魂之刃), another flagship IP, saw revenue of its pocket version more than double in the first half year-over-year as the Group stepped up the monetization initiative. Since launch in December 2016, the 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 drive revenue and profits growth by maximizing its IP values with new games and new game-play features, as well as expanding its IP portfolio. In particular, the Group is in discussion to license external IP to augment its own IP portfolio. In pipeline, on the other hand, remains robust, and it is expected to launch multiple new games with different genres in the second half of 2018.

### **Education Business**

For the first half of 2018, revenue from the education business was RMB1,384.1 million, up 48.2% year-over-year. Revenue of RMB1,278.5 million and RMB105.6 million in overseas and China were recorded respectively, up 49.3% and 35.4% year-over-year. Core segmental loss declined by 16.2% year-over-year.

During the first half of 2018, the Group continued to excel in emerging markets. The Group not only materialized the sizable second phase tender in the City of Moscow, but also laid the foundation for entering the huge African market by gaining new footprints in countries like Egypt and Nigeria. In developed markets, the Group sustained its growth momentum in various major countries, including the U.S., the UK, Germany and France. As such, the Group's number one international market share leadership position in K-12 interactive technologies was solidified as it continued to gain market share across regions. Underpinned by the solid performance, Promethean's operating profit surged by more than ten times year-to-year to RMB114.4 million in the first half of 2018 as a result of the ongoing effort to drive revenue growth and rationalize costs aggressively.

The Group has also made tremendous progress in building the learning community with the acquisition of Edmodo which was completed in the first half of 2018. To date, the total users of Edmodo have exceeded 90 million in over 400,000 schools in more than 190 countries. Combining Edmodo with Promethean's interactive learning technologies, the comprehensive product portfolio will support the full learning process, in and out of the classroom, including lesson preparation, lesson delivery, student collaboration, homework features, teacher-student-parent communications, education content marketplace and resources sharing. By capturing all the major use cases in K-12 learning, the complete product offerings will be in a unique position to drive significant user traffic, with monetization opportunities to follow.

In China, revenue of RMB105.6 million was recorded in the first half of 2018, up 35.4% from the same period of 2017, as the Group continued to expand across different regions. As at 30 June 2018, China sales backlog, representing signed sales orders to be delivered to or validated by the customers, was 347.0 million.

The Group is pleased to see the continuous traction in terms of user scaling. As at 30 June 2018, the Group had over 2.3 million installations for its flagship software platform 101 Education PPT in China, almost doubled from over 1.2 million as at the end of 2017. It has also leveraged the technologies in the space in AR, VR and AI to enhance user experience.

The Group's vision to revolutionize education with advanced technologies remains firm and clear. It possess the best-in-class learning products and technologies across the Group and in the near future, the strategy to integrate all these pieces will be vital to its success. In particular, the product portfolio enables users to prepare interesting courseware, deliver interactive lessons, streamline assignments, share and purchase resources, as well as communicate with one another using advanced technologies. Without question, the learning community with integrated functionalities is shaping the future of education.

## FINANCIAL HIGHLIGHTS AND REVIEW

### 2018 First Half Financial Highlights

- Revenue was RMB2,469.9 million, representing a 39.1% increase year-over-year.
- Revenue from the games business was RMB1,039.3 million, representing 42.1% of the Group's total revenue, registered a 29.5% increase year-over-year.
- Revenue from the education business was RMB1,384.1 million, representing 56.0% of the Group's total revenue, registered a 48.2% increase year-over-year.
- Gross profit was RMB1,402.1 million, representing a 35.7% increase year-over-year.
- Core segmental profit<sup>1</sup> from the games business was RMB524.4 million, representing a 56.9% increase year-over-year.
- Core segmental loss<sup>1</sup> from the education business was RMB158.7 million, representing a 16.2% decrease year-over-year.
- Non-GAAP operating profit<sup>2</sup> was RMB249.3 million, representing over 4 times increase year-over-year.
- Profit attributable to owners of the Company was RMB200.7 million, representing over 6 times increase year-over-year.

## Segmental Financial Highlights

(RMB'000)	FY2018 1H		FY2017 1H	
	Gaming	Education	Gaming	Education
Revenue	<b>1,039,346</b>	<b>1,384,074</b>	802,405	934,077
Gross profit	<b>978,499</b>	<b>421,499</b>	755,173	273,172
Gross margin	<b>94.1%</b>	<b>30.5%</b>	94.1%	29.2%
Core segmental profit (loss) <sup>1</sup>	<b>524,376</b>	<b>(158,650)</b>	334,110	(189,224)
Segmental operating expenses <sup>3</sup>				
- Research and development	<b>(222,443)</b>	<b>(214,525)</b>	(203,160)	(183,791)
- Selling and marketing	<b>(102,609)</b>	<b>(224,161)</b>	(97,118)	(192,051)
- Administrative	<b>(143,806)</b>	<b>(113,000)</b>	(133,909)	(68,802)

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

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

Note 3: Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortisation and exchange gain (loss) that have been grouped into SG&A categories on the Company's reported consolidated financial statements but cannot be allocated to specific business segments for purpose of calculating the segmental profit (loss) figures in accordance with HKFRS 8.

## RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company announced the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2018 together with the comparative figures in 2017 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018

		<b>Six months ended 30 June</b>	
		<b>2018</b>	<b>2017</b>
	<i>NOTES</i>	<i>(Unaudited)</i> <b>RMB'000</b>	<i>(Unaudited)</i> <b>RMB'000</b>
Revenue	4	<b>2,469,941</b>	1,775,250
Cost of revenue		<b><u>(1,067,810)</u></b>	<u>(741,971)</u>
Gross profit		<b>1,402,131</b>	1,033,279
Other income and gains	4	<b>39,817</b>	37,525
Impairment loss, net of reversal		<b>(13)</b>	(96)
Selling and marketing expenses		<b>(332,584)</b>	(292,490)
Administrative expenses		<b>(409,546)</b>	(344,853)
Development costs		<b>(442,233)</b>	(396,251)
Other expenses and losses		<b>(45,430)</b>	(17,110)
Share of losses of associates		<b>(265)</b>	(406)
Share of loss of a joint venture		<b><u>(198)</u></b>	<u>(53)</u>
Operating profit		<b>211,679</b>	19,545
Interest income on pledged bank deposits		<b>1,755</b>	706
Exchange (loss) gain on secured bank borrowings and convertible preferred shares		<b>(4,172)</b>	1,879
Net gain on convertible preferred shares		<b>26,953</b>	6,962
Net loss on disposal of property held for sale		<b>(68)</b>	—
Net fair value gain on held-for-trading investment		<b>—</b>	58
Finance costs		<b><u>(5,358)</u></b>	<u>(4,727)</u>
Profit before taxation		<b>230,789</b>	24,423
Taxation	6	<b><u>(53,047)</u></b>	<u>(31,510)</u>
Profit (loss) for the period		<b><u>177,742</u></b>	<u>(7,087)</u>

		<b>Six months ended 30 June</b>	
		<b>2018</b>	<b>2017</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>
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		<b>(3,109)</b>	11,862
Fair value loss on available-for-sale investment		—	(7,940)
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instrument at fair value through other comprehensive income		<u><b>(232)</b></u>	<u>—</u>
Other comprehensive (expense) income for the period		<u><b>(3,341)</b></u>	<u>3,922</u>
Total comprehensive income (expense) for the period		<u><b>174,401</b></u>	<u><b>(3,165)</b></u>
Profit (loss) for the period attributable to:			
- Owners of the Company		<b>200,740</b>	25,777
- Non-controlling interests		<u><b>(22,998)</b></u>	<u>(32,864)</u>
		<u><b>177,742</b></u>	<u><b>(7,087)</b></u>
Total comprehensive income (expense) attributable to:			
- Owners of the Company		<b>198,055</b>	27,496
- Non-controlling interests		<u><b>(23,654)</b></u>	<u>(30,661)</u>
		<u><b>174,401</b></u>	<u><b>(3,165)</b></u>
		<i>RMB cents</i>	<i>RMB cents</i>
<b>Earnings per share</b>	<b>8</b>		
- Basic		<b>37.63</b>	5.20
- Diluted		<u><b>37.55</b></u>	<u>5.20</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2018**

		<b>30 June 2018</b>	31 December 2017
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>1,552,420</b>	1,373,026
Prepaid lease payments		<b>359,902</b>	515,299
Investment properties		<b>74,361</b>	64,532
Intangible assets		<b>814,341</b>	715,578
Interests in associates		<b>15,696</b>	15,961
Interest in a joint venture		<b>17,235</b>	17,433
Available-for-sale investments		—	10,859
Equity instruments at fair value through other comprehensive income		<b>10,627</b>	—
Loan receivables		<b>15,786</b>	18,410
Trade receivables	10	—	3,912
Pledged bank deposit		<b>8,555</b>	—
Restricted bank deposit		—	5,000
Deposits made for acquisition of property, plant and equipment		<b>10,546</b>	7,441
Goodwill		<b>453,063</b>	388,675
Deferred tax assets		<b>4,108</b>	4,160
		<b><u>3,336,640</u></b>	<b><u>3,140,286</u></b>
<b>Current assets</b>			
Properties under development		<b>379,922</b>	160,141
Property held for sale		—	9,213
Inventories		<b>127,532</b>	106,430
Prepaid lease payments		<b>6,636</b>	9,866
Loan receivables		<b>13,050</b>	4,662
Trade receivables	10	<b>945,816</b>	380,072
Amounts due from customers for contract work		—	16,522
Other receivables, prepayments and deposits		<b>349,108</b>	255,948
Contract assets		<b>17,893</b>	—
Amounts due from related companies		<b>1,757</b>	1,704
Amounts due from associates		<b>1,953</b>	5,264
Amount due from a joint venture		<b>356</b>	159
Tax recoverable		<b>393</b>	1,497
Pledged bank deposits		<b>147,315</b>	145,084
Restricted bank balances		<b>15,089</b>	20,332
Bank balances and cash		<b>1,074,087</b>	1,578,477
		<b><u>3,080,907</u></b>	<b><u>2,695,371</u></b>



		<b>30 June 2018</b>	31 December 2017
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current liabilities</b>			
Trade and other payables	11	<b>830,354</b>	680,736
Contract liabilities		<b>240,976</b>	—
Amounts due to customers for contract work		—	1,691
Provisions		<b>49,576</b>	41,246
Deferred income		—	95,531
Amount due to a related company		<b>2</b>	1,400
Amounts due to associates		<b>580</b>	305
Secured bank borrowings	13	<b>277,919</b>	146,132
Promissory note		—	46,226
Income tax payable		<b>50,054</b>	23,339
		<b><u>1,449,461</u></b>	<u>1,036,606</u>
<b>Net current assets</b>		<b><u>1,631,446</u></b>	<u>1,658,765</u>
<b>Total assets less current liabilities</b>		<b><u>4,968,086</u></b>	<u>4,799,051</u>
<b>Non-current liabilities</b>			
Other payables		<b>1,722</b>	2,693
Convertible preferred shares	12	<b>136,518</b>	95,249
Secured bank borrowings	13	<b>93,968</b>	86,582
Deferred tax liabilities		<b>164,814</b>	130,466
		<b><u>397,022</u></b>	<u>314,990</u>
<b>Net assets</b>		<b><u>4,571,064</u></b>	<u>4,484,061</u>
<b>Capital and reserves</b>			
Share capital		<b>39,029</b>	39,094
Share premium and reserves		<b>4,619,481</b>	4,510,073
Equity attributable to owners of the Company		<b>4,658,510</b>	4,549,167
Non-controlling interests		<b><u>(87,446)</u></b>	<u>(65,106)</u>
		<b><u>4,571,064</u></b>	<u>4,484,061</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018

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/equity instrument at fair value through other comprehensive income reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	36,571	830,126	6,155	28,170	10,035	292,864	44,374	22,449	(2,120)	20,357	(118,365)	(11,302)	2,694,515	3,853,829	(25,552)	3,828,277
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	—	—	25,777	25,777	(32,864)	(7,087)
Other comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	9,659	(7,940)	—	1,719	2,203	3,922
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	9,659	(7,940)	25,777	27,496	(30,661)	(3,165)
Repurchase and cancellation of shares	(91)	(23,641)	91	—	—	—	—	—	—	—	—	—	(91)	(23,732)	—	(23,732)
Shares issued upon exercise of share options	151	13,447	—	—	—	—	—	—	—	(4,301)	—	—	9,297	—	9,297	
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	3,385	—	—	—	3,385	—	3,385
Awarded shares vested to employees	—	—	—	—	—	—	—	—	993	(3,172)	—	—	2,179	—	—	—
Deemed disposal of subsidiaries to non-controlling shareholders	—	—	—	1,454	—	—	—	—	—	—	—	—	—	1,454	(1,454)	—
Acquisition of additional equity interests from a non-controlling interest	—	—	—	(285)	—	—	—	—	—	—	—	—	—	(285)	(7)	(292)
Contribution from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8,042	8,042
Final dividend for 2016 paid	—	—	—	—	—	—	(44,374)	—	—	—	—	—	(84)	(44,458)	—	(44,458)
Interim dividend for 2017	—	—	—	—	—	—	43,137	—	—	—	—	—	(43,137)	—	—	—
At 30 June 2017 (unaudited)	36,631	819,932	6,246	29,339	10,035	292,864	43,137	22,449	(1,127)	16,269	(108,706)	(19,242)	2,679,159	3,826,986	(49,632)	3,777,354
At 1 January 2018	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
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	—	—	200,740	200,740	(22,998)	177,742
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(2,453)	(232)	—	(2,685)	(656)	(3,341)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	—	(2,453)	(232)	200,740	198,055	(23,654)	174,401
Repurchase and cancellation of shares	(72)	(16,295)	72	—	—	—	—	—	—	—	—	—	(72)	(16,367)	—	(16,367)
Purchase of treasury shares	—	—	—	—	—	—	—	—	(39,324)	—	—	—	—	(39,324)	—	(39,324)
Shares issued upon exercise of share options	7	2,498	—	—	—	—	—	—	—	(831)	—	—	1,674	—	1,674	
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	12,280	—	—	—	12,280	—	12,280
Awarded shares vested to employees	—	—	—	—	—	—	—	—	6,784	(7,994)	—	—	1,210	—	—	—
Acquisition of additional equity interests from a non-controlling interest	—	—	—	(2,386)	—	—	—	—	—	—	—	—	—	(2,386)	1,314	(1,072)
Final dividend for 2017 paid	—	—	—	—	—	—	(44,661)	—	—	—	—	—	72	(44,589)	—	(44,589)
Interim dividend for 2018 proposed	—	—	—	—	—	—	44,973	—	—	—	—	—	(44,973)	—	—	—
Transfers	—	—	—	—	—	67	—	—	—	—	—	—	(67)	—	—	—
At 30 June 2018 (unaudited)	39,029	1,601,655	6,428	24,005	10,035	336,473	44,973	22,449	(33,492)	20,089	(114,445)	(232)	2,701,543	4,658,510	(87,446)	4,571,064

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>(156,721)</u></b>	<b><u>(9,397)</u></b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(250,104)	(156,386)
Acquisition of a subsidiary	(92,425)	—
Purchase of intangible assets	(15,535)	(8,702)
Payment for deposits of property, plant and equipment	(6,603)	(4,719)
Acquisition of additional equity interests from a non-controlling interest	(1,072)	—
Placement of pledged bank deposits	(160)	(145,078)
Proceeds from disposal of property held for sale	8,857	—
Withdrawal of restricted bank balance	5,243	—
Withdrawal of restricted bank deposit	5,000	—
Investment in a joint venture	—	(18,000)
Placement of restricted bank balance	—	(13,611)
Purchase of property held for sale	—	(11,238)
Purchase of available-for-sale investment	—	(10,361)
Purchase of prepaid lease payment	—	(28)
Proceeds from disposal of held-for-trading investment	—	151,841
Withdrawal of bank deposits	—	54,858
Other investing activities	<b><u>3,807</u></b>	<b><u>4,983</u></b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b><u>(342,992)</u></b>	<b><u>(156,441)</u></b>
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	153,993	1,043,706
Proceeds from shares issued upon exercise of share options	1,674	9,297
Contribution from non-controlling shareholders	—	5,900
Repayment of promissory note	(45,311)	—
Dividends paid	(44,589)	(44,458)
Payment for purchase of treasury shares	(39,324)	—
Repayment of bank borrowings	(16,445)	(872,677)
Payment for repurchase of shares	<b><u>(16,367)</u></b>	<b><u>(23,732)</u></b>
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b><u>(6,369)</u></b>	<b><u>118,036</u></b>

	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(506,082)</b>	<b>(47,802)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>1,578,477</b>	<b>876,532</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u><b>1,692</b></u>	<u><b>(10,838)</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<u><b>1,074,087</b></u>	<u><b>817,892</b></u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

**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 (collectively referred to as the “Group”) are engaged in (i) online and mobile games development, including games design, programming and graphics and online games operation, (ii) education business and (iii) mobile solution, products and marketing business.

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

**2. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

**3. PRINCIPAL ACCOUNTING POLICIES**

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

## Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenues from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

#### 4. REVENUE, OTHER INCOME AND GAINS

	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>		
Online and mobile games revenue	<b>1,039,346</b>	802,405
Education revenue	<b>1,384,074</b>	934,077
Mobile solution, products and marketing revenue	<b><u>46,521</u></b>	<u>38,768</u>
	<b><u>2,469,941</u></b>	<u>1,775,250</u>
	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Other income and gains</b>		
Government grants (Note)	<b>8,090</b>	22,719
Interest income	<b>5,933</b>	4,392
Net foreign exchange gain	<b>9,570</b>	—
Fair value gain of investment properties	<b>8,962</b>	3,969
Game implementation income	<b>938</b>	3,287
Rental income	<b>4,860</b>	2,082
Server rental income	<b>11</b>	248
Others	<b><u>1,453</u></b>	<u>828</u>
	<b><u>39,817</u></b>	<u>37,525</u>

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

## 5. SEGMENT INFORMATION

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

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

### Six months ended 30 June 2018

	<b>Online and mobile games (Unaudited) RMB’000</b>	<b>Education (Unaudited) RMB’000</b>	<b>Mobile solution, products and marketing (Unaudited) RMB’000</b>	<b>Total (Unaudited) RMB’000</b>
Segment revenue	<u>1,039,346</u>	<u>1,384,074</u>	<u>46,521</u>	<u>2,469,941</u>
Segment profit (loss)	<u>546,766</u>	<u>(149,664)</u>	<u>(7,544)</u>	389,558
Unallocated other income and gains				25,168
Unallocated expenses and losses				<u>(183,937)</u>
Profit before taxation				<u>230,789</u>

### Six months ended 30 June 2017

	<b>Online and mobile games (Unaudited) RMB’000</b>	<b>Education (Unaudited) RMB’000</b>	<b>Mobile solution, products and marketing (Unaudited) RMB’000</b>	<b>Total (Unaudited) RMB’000</b>
Segment revenue	<u>802,405</u>	<u>934,077</u>	<u>38,768</u>	<u>1,775,250</u>
Segment profit (loss)	<u>386,815</u>	<u>(212,248)</u>	<u>(8,957)</u>	165,610
Unallocated other income and gains				8,754
Unallocated expenses and losses				(149,999)
Net fair value gain on held-for-trading investment				<u>58</u>
Profit before taxation				<u>24,423</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 fair value gain on held-for-trading investment and unallocated income, gains, expenses and losses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	<b>30 June 2018 (Unaudited) RMB'000</b>	31 December 2017 (Audited) RMB'000
Online and mobile games	<b>2,547,723</b>	2,377,169
Education	<b>3,034,931</b>	2,257,793
Mobile solution, products and marketing	<b><u>186,351</u></b>	<u>200,240</u>
Total segment assets	<b>5,769,005</b>	4,835,202
Unallocated	<b><u>648,542</u></b>	<u>1,000,455</u>
	<b><u><u>6,417,547</u></u></b>	<u><u>5,835,657</u></u>

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as equity instruments at fair value through other comprehensive income/available-for-sale investments, loan receivables, properties under development, certain prepaid lease payments and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

## 6. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
The tax charge comprises:		
Hong Kong Profits Tax	<b>4,098</b>	4,280
The PRC Enterprise Income Tax (“EIT”)	<b>50,668</b>	31,486
Taxation in other jurisdictions	<b>2,032</b>	377
Deferred tax	<u><b>(3,751)</b></u>	<u>(4,633)</u>
	<u><b>53,047</b></u>	<u>31,510</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2018 and 30 June 2017.

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

The United Kingdom Corporate Tax Rate applicable to subsidiaries is 19% for the six months ended 30 June 2018 (30 June 2017: 20% from 1 January 2017 to 31 March 2017, and 19% effective from 1 April 2017 to 30 June 2017).

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

## 7. DIVIDENDS

On 20 June 2018, a dividend of Hong Kong dollars (“HKD”) 0.10 per share (2017: HKD0.10 per share) was paid to shareholders as the final dividend for 2017. The aggregate amount of the final dividend paid in current interim period amounted to approximately RMB44,589,000 (2017: RMB44,458,000).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HKD0.10 per share (2017: HKD0.10 per share), amounting to approximately HKD53,342,000 (equivalent to approximately RMB44,973,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 13 September 2018.

## 8. EARNINGS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Profit for the purpose of basic and diluted earnings per share:		
- profit for the period attributable to the owners of the Company	<u>200,740</u>	<u>25,777</u>
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of shares in issue during the period for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	533,482	495,350
Effect of dilutive potential shares from the Company's share option scheme	<u>1,094</u>	<u>707</u>
Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>534,576</u>	<u>496,057</u>

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the deposits of approximately RMB3,498,000 (six months ended 30 June 2017: RMB5,094,000) were transferred to property, plant and equipment and the Group spent approximately RMB250,104,000 (six months ended 30 June 2017: RMB156,386,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB39,913,000 (six months ended 30 June 2017: RMB35,630,000) in plant and equipment and RMB207,617,000 (six months ended 30 June 2017: RMB90,566,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

## 10. TRADE RECEIVABLES

The Group generally allows a credit period ranging from 30 days to 90 days to its agents/trade customers. For customers in education business, the Group accepts settlement of trade receivables by four years in accordance with the agreements.

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

	<b>30 June 2018 (Unaudited) RMB'000</b>	31 December 2017 (Audited) RMB'000
Trade debtors		
0 - 30 days	<b>469,380</b>	227,847
31 - 60 days	<b>259,758</b>	81,630
61 - 90 days	<b>94,863</b>	29,269
Over 90 days	<b>109,834</b>	29,509
Receivables with extended credit terms		
Due within one year	<b>11,981</b>	11,817
Due after one year	<u>—</u>	<u>3,912</u>
	<b><u>945,816</u></b>	<b><u>383,984</u></b>

## 11. TRADE AND OTHER PAYABLES

	<b>30 June 2018 (Unaudited) RMB'000</b>	31 December 2017 (Audited) RMB'000
Trade payables	<b>502,677</b>	242,169
Accrued staff costs	<b>144,793</b>	183,284
Government grants (a)	<b>20,176</b>	13,495
Receipt in advance	<b>522</b>	86,511
Other tax payables	<b>25,495</b>	26,476
Other payables and accruals (b)	<u><b>136,691</b></u>	<u>128,801</u>
	<b><u>830,354</u></b>	<b><u>680,736</u></b>

Notes:

- (a) Government grants are assets related and amortised over the life of related assets.
- (b) Other payables and accruals mainly represent construction payable, advertising payable, office and server rental payable and other miscellaneous items for operating and investing activities.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	<b>30 June 2018 (Unaudited) RMB'000</b>	31 December 2017 (Audited) RMB'000
0 - 90 days	<b>408,421</b>	230,001
91 - 180 days	<b>89,179</b>	7,931
181 - 365 days	<b>4,212</b>	2,288
Over 365 days	<b>865</b>	1,949
	<b><u>502,677</u></b>	<u>242,169</u>

## 12. CONVERTIBLE PREFERRED SHARES

On 13 February 2015, Best Assistant Education Online Limited (“Best Assistant”), an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of United States dollar (“USD”) 0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 12.4% of the issued share capital of the Company), Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, DJM Holding Ltd. (in which Mr. Liu Dejian and Mr. Zheng Hui, executive directors and beneficial owners of the Company together have 100% equity interest), Creative Sky International Limited and NetDragon Websoft Inc., a direct wholly owned subsidiary of the Company. The Series A convertible preferred shares are denominated in USD.

On 2 May 2018, Best Assistant issued 112,560,245 Series B convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD122,500,000 (equivalent to approximately RMB780,713,000) to Fortis Advisors LLC as a consideration to acquire Edmodo, Inc.. The Series B convertible preferred shares are denominated in USD.

## **Conversion**

The Series A and Series B convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each convertible preferred share. The initial conversion ratio of 1:1 is subject to adjustments, in the event of share split, share division, share combination, share dividend, reorganisation, merger, consolidation, reclassification, exchange, substitution, recapitalisation or similar event.

The Series A and Series B convertible preferred shares shall be automatically converted into ordinary shares upon occurrence of an underwritten public offering of the ordinary shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD1,000,000,000 and net proceeds to the subsidiary of the Company are in excess of USD100,000,000.

## **Dividends**

The holders of the outstanding Series A and Series B convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of the funds lawfully available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares or other equity securities. The right to receive dividends on the Series A and Series B convertible preferred shares shall not be cumulative, and no rights to such dividends shall accrue to holders of convertible preferred shares.

## **Liquidation**

The holders of the Series A convertible preferred shares have preference over holders of ordinary shares and other equity securities with respect to payment of dividends and distribution of assets and funds upon liquidation of the subsidiary of the Company. The holders of the Series A convertible preferred shares shall be entitled to receive an amount equivalent to 300% of the issue price of the Series A convertible preferred shares, plus all declared but unpaid dividends.

The holders of the Series B convertible preferred shares shall be entitled to receive for each of the outstanding Series B convertible preferred shares held, an amount equal to the Series B adjusted price, plus all declared but unpaid dividends. The Series B adjusted price means, at any given time, the Series B issue price by a fraction, (i) the numerator of which is equal to the original Series B value minus the aggregate indemnification claim amount, and (ii) the denominator of which is the original Series B value; provided, that the Series B adjusted price will not be reduced below USD0.001 per share.

If the assets and funds thus distributed amount the preferred shareholders shall be insufficient for the full payment of the preference amount to all the preferred shareholders, then the entire assets and funds of Best Assistant legally available for distribution shall be distributed ratably among the preferred shareholders in proportion to the aggregate preference amount each such preferred shareholder is otherwise entitled to receive.

The convertible preferred shares are classified as non-current liabilities.

The Group has elected to designate the Series A and Series B convertible preferred shares with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A and Series B convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

The movements of the convertible preferred shares for the period are set out as below:

	<b>30 June 2018 (Unaudited) RMB'000</b>	31 December 2017 (Audited) RMB'000
At the beginning of the period	<b>95,249</b>	104,101
Issue of Series B convertible preferred shares	<b>64,556</b>	—
Fair value change	<b>(26,953)</b>	(2,809)
Exchange adjustments	<b><u>3,666</u></b>	<u>(6,043)</u>
At the end of the period	<b><u><u>136,518</u></u></b>	<u><u>95,249</u></u>

Key assumption in valuation of preferred shares in current period is the capital value of the shareholder's equity, reflects the future economic benefit to be derived from the ownership of the subject asset.

### 13. SECURED BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB153,993,000 (six months ended 30 June 2017: RMB1,043,706,000). The secured bank borrowings carry interest at (i) interest rate of 190 basis points over one-month to two-month London Inter-Bank Offer Rate per annum, (ii) one-month Hong Kong Inter-Bank Offer Rate plus 1.85% or 2.2% per annum, (iii) interest rate of 3.25% to 4.95% per annum and (iv) interest rate of 5.20% per annum, and are repayable from 2018 to 2022. The borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, corporate guarantee provided by the Company and corporate guarantee provided by subsidiaries. The proceeds were used to finance the operations.

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2018, the Group had pledged bank deposits, restricted bank deposit, restricted bank balances and bank balances and cash of approximately RMB1,245.0 million (31 December 2017: RMB1,748.9 million). The gearing ratio (consolidated bank borrowings/consolidated total equity) was 0.08 (31 December 2017: 0.05). As at 30 June 2018, total bank borrowings of the Group amounted to approximately RMB371.9 million (31 December 2017: RMB232.7 million) in which an amount of RMB364.7 million (31 December 2017: RMB225.2 million) was floating-rate loans and the remaining balance was fixed-rate loans. The bank borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, corporate guarantee provided by the Company and corporate guarantee provided by subsidiaries.

As at 30 June 2018, the Group had net current assets of approximately RMB1,631.4 million as compared with approximately RMB1,658.8 million as at 31 December 2017.

## STAFF INFORMATION

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

	At <b>30 June</b> <b>2018</b>	At 31 December 2017	At 30 June 2017
Research and development	<b>3,475</b>	3,836	3,494
Selling and marketing	<b>1,296</b>	1,384	1,361
Accounting, finance and general administration	<b>956</b>	948	860
Production	<u><b>311</b></u>	<u>278</u>	<u>258</u>
Total	<u><b>6,038</b></u>	<u>6,446</u>	<u>5,973</u>



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

As at 30 June 2018, 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 (Cap 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)	47.96%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Leung Lim Kin, Simon (Note 4)	The Company	Beneficial owner	1,363,530 (L)	0.26%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	255,822,457 (L)	47.96%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%

<b>Name of Director</b>	<b>Name of Company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or amount of registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	255,822,457 (L)	47.96%
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)	2.10%
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	1,060,519 (L)	0.20%
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 35.82% 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 5.29% 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 3.57% 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 47.96% 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 0.26% of the issued voting shares of the Company which is represented by beneficial interest of 1,363,530 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 0.20% of the issued voting shares of the Company which is represented by personal interest of 642,519 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 June 2018, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they

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

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

So far as is known to the Directors, as at 30 June 2018, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

<b>Name of Shareholder</b>	<b>Name of Company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or amount of registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	35.82%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320 (L)	14.69%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320 (L)	14.69%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095 (L)	13.78%
First Elite Group Limited <i>(Note 3)</i>	The Company	Beneficial owner and through controlled corporation	26,541,819 (L)	4.98%
Jardine PTC Limited <i>(Note 3)</i>	The Company	Trustee	26,541,819 (L)	4.98%

*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%, 9.75%, 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 30 June 2018.

## SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 24 May 2018, the Company adopted a new share option scheme (the “Main Board Share Option Scheme”) to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 30 June 2018 are as follows:

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options			As at
			1 January 2018	Granted	Exercised	Lapsed	30 June 2018
<b>Independent non-executive Directors</b>							
Chao Guowei, Charles	04.12.2013	15.72	238,500	—	—	—	238,500
	31.03.2017	23.65	100,000	—	—	—	100,000
Lee Kwan Hung	04.12.2013	15.72	318,000	—	—	—	318,000
	31.03.2017	23.65	100,000	—	—	—	100,000
Liu Sai Keung, Thomas	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
	31.03.2017	23.65	100,000	—	—	—	100,000
<b>Others</b>							
Employees	28.04.2011	4.80	359,367	—	13,000	1,500	344,867
	22.07.2011	4.60	8,000	—	—	—	8,000
	23.04.2012	5.74	175,717	—	25,300	—	150,417
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	277,275	—	17,100	—	260,175
	25.04.2014	14.66	278,000	—	—	—	278,000
	11.05.2015	27.75	<u>194,000</u>	—	<u>60,000</u>	—	<u>134,000</u>
Total			<u>2,817,109</u>	<u>—</u>	<u>115,400</u>	<u>1,500</u>	<u>2,700,209</u>

## 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.

1,190,800 awarded shares were granted to Leung Lim Kin, Simon, vice chairman and executive director of the Company on 19 April 2018. 2,048,840 awarded shares granted to a number of selected participants were outstanding as at 30 June 2018. The awarded shares, which were purchased at an average price of HKD18.96 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 518,100 vested awarded shares as at 30 June 2018, a total of 290,890 awarded shares were vested by the Director.

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

### *Best Assistant Education Online Limited (“Best Assistant”)*

On 7 August 2012, Best Assistant adopted a share award scheme as amended on 13 February 2015 (the “Best Assistant Share Award Scheme”) in which selected participants include senior management employees of Best Assistant and/or its subsidiaries (“Best Assistant Group”), consultants to Best Assistant Group employed by any member of the Company, its associated companies or their subsidiaries

(excluding Best Assistant Group) and any person who contributes to the development of Best Assistant Group which has been certified and determined by the board of directors of Best Assistant with the affirmative vote of one director appointed by IDG Investors, Vertex or Alpha.

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

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

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

As at 30 June 2018, 600,000 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



USD52,500,000 (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 87.43% to approximately 79.10%.

As at 30 June 2018, no Series A Preferred Shares have been converted into ordinary shares of Best Assistant.

#### **ACQUISITION OF EDMODO, INC. AND ISSUE OF SERIES B PREFERRED SHARES BY BEST ASSISTANT**

On 6 April 2018, Best Assistant, Digital Train Limited ("Digital Train") as purchaser, a wholly-owned subsidiary of Best Assistant, Educate Merger Sub, Inc. ("Merger Sub"), a wholly-owned subsidiary of the purchaser, Edmodo, Inc. ("Edmodo"), Fortis Advisors LLC, in its capacity as representative of the shareholders of Edmodo, and the Company, solely with respect as guarantor for the timely performance of the obligations of Best Assistant and Digital Train entered into an agreement and plan of merger (the "Agreement and Plan of Merger"), pursuant to which Digital Train will acquire Edmodo, for consideration in the form of cash and stock collectively valued in the amount of USD137,500,000, by way of merger under the laws of the State of Delaware.

Upon closing which took place on 2 May 2018, the Merger Sub merged with and into Edmodo, the separate corporate existence of Merger Sub ceased, and Edmodo shall continue its corporate existence as a wholly owned subsidiary of Digital Train in accordance with Delaware law.

The consideration (subject to downward adjustment as provided in the Agreement) shall be satisfied by (i) payment of an amount in cash equal to USD15,000,000 and (ii) the issue of 112,560,245 Best Assistant Series B Shares.

As at 30 June 2018, no Series B Preferred Shares have been converted into ordinary shares of Best Assistant.

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

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2018.

## **INTERIM DIVIDEND**

On 29 August 2018, the Board has resolved to declare an interim dividend of HKD0.10 per share for the six months ended 30 June 2018 (2017: HKD0.10 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 13 September 2018. It is expected that the interim dividend will be distributed on or before 19 October 2018.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 13 September 2018 to Friday, 14 September 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2018, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 12 September 2018.

## **COMPETITION AND CONFLICT OF INTERESTS**

None of the Directors or any of their respective associates (as defined under the Listing Rules) has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this announcement.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

Throughout the period under review, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

### **AUDIT COMMITTEE**

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

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group’s interim results for the six months ended 30 June 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2018, the Company bought back a total of 115,000 shares on the Stock Exchange at an aggregate consideration of HKD2,081,440 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 2018	26,000	21.85	21.85	568,100
June 2018	89,000	17.10	16.78	1,513,340

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

Hong Kong, 29 August 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.*