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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 2018**

BUSINESS REVIEW AND OUTLOOK

2018 was a record year for NetDragon Websoft Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), as both revenue and operating profit reached record-highs. The Group recorded revenue of RMB5,037.5 million in 2018, up 30.2% year-over-year, and operating profit of RMB526.4 million in 2018, versus operating loss of RMB30.0 million in 2017. In addition, the Group generated cash inflows from operations of RMB694.1 million, up 105.9% year-over-year. These remarkable numbers were underpinned by the strong execution in both gaming and education segments.

The gaming business revenue grew by 41.5% year-over-year to a record-high RMB2,367.4 million in 2018. Mobile games remained a major growth driver, with 49.3% year-over-year growth in revenue. In terms of new games development, several new games in the pipeline have recently obtained license approvals. It is optimistic that the industry’s licensing will continue. On the other hand, the Group will continue to execute the strategy to maximize IP values and accelerate the growth further by expanding the IP portfolio, both organically and by working with different partners.

The Group is also excited by the exceptional growth of the education business. In overseas, adoption of the interactive learning technologies continued to expand rapidly in both developed and emerging countries. As a result, the subsidiaries, Promethean Group (“Promethean”) strengthened its global market leadership in K-12 interactive learning technologies during the year with number-one market share in major markets including the U.S. and vast majority of the EU countries. It is also

pleased to complete the acquisition of Edmodo, Inc. (“Edmodo”) in May 2018. With Edmodo joining the Group, it 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 any time. More importantly, the online community has accumulated more than 100 million of registered users to date, which will enable the Group to accelerate user monetization.

In China, the Group remained focused to drive adoption of the software platforms. As at the end of 2018, the installed base of the flagship platform 101 Education PPT in China was 5.0 million, as compared to 1.2 million as at the end of 2017, covering all 34 provinces and cities across China.

Gaming Business

The gaming business revenue grew by 41.5% year-over-year to a record-high RMB2,367.4 million in 2018. As a result of strong top line growth combined with operating leverage, gaming’s core segmental profit jumped by 92.5% year-over-year.

PC games recorded 39.8% year-over-year revenue growth to RMB1,915.0 million in 2018. The number set a new historical-high over the 20 years of operating history. On the other hand, mobile games registered strong revenue growth of 49.3% year-over-year to RMB452.4 million in 2018. In particular, the combined monthly gross billings of the pocket version of Eudemons Online (魔域) and Eudemons Online Mobile averaged RMB100 million during the second half of 2018. During the year, the Group also focused on enhancing user experience by introducing new expansion packs, content updates and game features. As such, the ARPU surged by 64.8% year-over-year to RMB665 in 2018.

Looking forward, the Group will continue to drive growth by maximizing the IP values with new games and game-play features, as well as expanding the IP portfolio via self-development and partnerships. Finally, the Group is in a good position to launch a number of new games in 2019 as several new games in the pipeline have recently obtained license approvals, while some others are awaiting approvals following the applications. Currently, the pipeline is solid and diversified, as the Group plans to introduce multiple games under new IPs and genres in 2019. These include a series of SLG and MOBA games which are expected to have tremendous upside in terms of monetization.

Education Business

The education business revenue increased by 21.9% year-over-year to RMB2,565.6 million on the back of strong execution and solid progress being made on all fronts.

In overseas, it is pleased to see Promethean recorded revenue of RMB2,200.3 million in 2018, up 25.9% year-over-year. During the year, the Group sustained the growth momentum in the major markets across developed countries, particularly in the US and Europe. It is also excelled on the back of the Belt and Road Initiatives as the Group continued to expand into new markets across emerging countries, including Egypt, Nigeria, Kenya and Malaysia. In addition, the shipment of the sizable second phase tender of Moscow's multi-year Online School project as a part of its "Smart City" initiative was completed. As a result, not only did Promethean strengthen its market leadership in K-12 interactive displays, but it also reported a net profit of RMB151.5 million in 2018, as compared to RMB5.0 million in 2017.

The Group also made progress in building the learning community with the acquisition of Edmodo during the year of 2018. To date, the total users of Edmodo have exceeded 100 million in over 400,000 schools across more than 190 countries. Combining Edmodo with Promethean's interactive learning technologies, the comprehensive product portfolio will support the entire 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 put the Group in a unique position to convert significant user traffic into massive monetization opportunities.

In China, the strategy focus remained expanding user coverage and its traction was remarkable. As at the end of 2018, the flagship software platform 101 Education PPT in China reached 5.0 million installations, as compared to 1.2 million as at the end of 2017. Furthermore, the VR business scaled quickly on the back of rising demand of VR-related projects across China, driven by the country's objective to promote creativity. The Ministry of Education has also recently made VR a professional major, which has in turn laid the foundation for the future growth in this space. As a result of the growth in the VR business which entails higher gross margins, the China education business recorded a 13.6% increase in gross profit year-over-year.

Looking forward, the Group expects to start the online service monetization in the second half of 2019 as it plans to launch the new online tutoring service on Edmodo. It is also excited that the new Promethean ActivPanel Element Series will accelerate cloud-based connectivity amongst students and teachers, which together with Edmodo, will drive user engagement both in classrooms and at home. In China, the Group is also devising a strategy to start large-scale penetration of Promethean offerings during the year of 2018.

The vision to revolutionize education with advanced technologies remains firm and clear. The Group is on a mission to create "the classrooms of the future" and it is believed that the Group is best positioned with the best-in-class learning products and technologies.

FINANCIAL HIGHLIGHTS

2018 Second Half Financial Highlights

- Revenue was RMB2,567.6 million, representing a 22.7% increase year-over-year.
- Revenue from the games business was RMB1,328.1 million, representing 51.7% of the Group's total revenue, registered a 52.6% increase year-over-year.
- Revenue from the education business was RMB1,181.5 million, representing 46.0% of the Group's total revenue, registered a 0.9% increase year-over-year.
- Gross profit was RMB1,645.1 million, representing a 43.5% increase year-over-year.
- Core segmental profit¹ from the games business was RMB775.5 million, representing an 127.4% increase year-over-year.
- Core segmental loss¹ from the education business was RMB262.1 million, representing an 11.9% increase year-over-year.
- Non-GAAP² operating profit was RMB402.5 million, representing an 1,848.3% increase year-over-year.
- Profit attributable to owners of the Company was RMB344.8 million, compared to loss attributable to owners of the Company RMB46.6 million for the same period last year.

Fiscal Year 2018 Financial Highlights

- Revenue was RMB5,037.5 million, representing a 30.2% increase year-over-year.
- Revenue from the games business was RMB2,367.4 million, representing 47.0% of the Group's total revenue, registered a 41.5% increase year-over-year.
- Revenue from the education business was RMB2,565.6 million, representing 50.9% of the Group's total revenue, registered a 21.9% increase year-over-year.
- Gross profit was RMB3,047.2 million, representing a 39.8% increase year-over-year.
- Core segmental profit¹ from the games business was RMB1,299.9 million, representing a 92.5% increase year-over-year.
- Core segmental loss¹ from the education business was RMB420.7 million, representing a 0.6% decrease year-over-year.
- Non-GAAP² operating profit was RMB651.8 million, representing an 853.8% increase year-over-year.
- Profit attributable to owners of the Company was RMB545.6 million, compared to loss attributable to owners of the Company of RMB20.8 million last year.
- The Board of Directors proposed a final dividend of HKD0.15 per share (2017: HKD0.10 per share), subject to approval by shareholders in the coming Annual General Meeting.

Segmental Financial Highlights

2018 Second Half

(RMB'000)	FY2018 2H		FY2018 1H		FY2017 2H	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	1,328,059	1,181,482	1,039,346	1,384,074	870,453	1,171,213
Gross profit	1,283,856	344,558	978,499	421,499	810,186	316,503
Gross margin	96.7%	29.2%	94.1%	30.5%	93.1%	27.0%
Core segmental profit (loss) ¹	775,547	(262,056)	524,376	(158,650)	341,007	(234,116)
Segmental operating expenses ³						
- Research and development	(236,489)	(234,807)	(222,443)	(214,525)	(236,651)	(203,125)
- Selling and marketing	(136,703)	(216,543)	(102,609)	(224,161)	(102,853)	(223,341)
- Administrative	(152,237)	(126,497)	(143,806)	(113,000)	(143,786)	(90,354)

Fiscal Year 2018

(RMB'000)	FY2018		FY2017		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	2,367,405	2,565,556	1,672,858	2,105,290	41.5%	21.9%
Gross profit	2,262,355	766,057	1,565,359	589,675	44.5%	29.9%
Gross margin	95.6%	29.9%	93.6%	28.0%	2.0%	1.9%
Core segmental profit (loss) ¹	1,299,923	(420,706)	675,117	(423,340)	92.5%	(0.6)%
Segmental operating expenses ³						
- Research and development	(458,932)	(449,332)	(439,811)	(386,916)	4.3%	16.1%
- Selling and marketing	(239,312)	(440,704)	(199,971)	(415,392)	19.7%	6.1%
- Administrative	(296,043)	(239,497)	(277,695)	(159,156)	6.6%	50.5%

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, amortisation of intangible assets arising on acquisition of subsidiaries and impairment of goodwill.

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.

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 2018 together with the comparative figures in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	5,037,539	3,867,623
Cost of revenue		(1,990,298)	<u>(1,687,860)</u>
Gross profit		3,047,241	2,179,763
Other income and gains	4	118,189	95,393
Impairment loss, net of reversal		(11,717)	(275)
Selling and marketing expenses		(697,871)	(624,716)
Administrative expenses		(853,180)	(734,560)
Development costs		(922,867)	(844,076)
Other expenses and losses		(150,308)	(100,134)
Share of losses of associates		(1,370)	(822)
Share of loss of a joint venture		(1,717)	<u>(567)</u>
Operating profit (loss)		526,400	(29,994)
Interest income on pledged bank deposits		3,607	2,558
Exchange (loss) gain on secured bank borrowings and convertible preferred shares		(10,030)	3,250
Net gain on convertible preferred shares		60,659	2,809
Net loss on disposal of property held for sale		(68)	—
Net fair value gain on held-for-trading investment		—	58
Finance costs	5	(12,415)	<u>(10,409)</u>
Profit (loss) before taxation		568,153	(31,728)
Taxation	7	(91,349)	<u>(57,209)</u>
Profit (loss) for the year		476,804	<u>(88,937)</u>

	<i>NOTE</i>	2018 <i>RMB'000</i>	2017 <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		4,332	9,174
Fair value loss on available-for-sale investment		—	(17,385)
Release of reserve upon impairment of available-for-sale investment		—	28,687
		<u>4,332</u>	<u>20,476</u>
Items that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(8,366)	—
Write off of equity instrument at fair value through other comprehensive income		(1,000)	—
		<u>(9,366)</u>	<u>—</u>
Other comprehensive (expense) income for the year		<u>(5,034)</u>	<u>20,476</u>
Total comprehensive income (expense) for the year		<u>471,770</u>	<u>(68,461)</u>
Profit (loss) for the year attributable to:			
- Owners of the Company		545,573	(20,843)
- Non-controlling interests		(68,769)	(68,094)
		<u>476,804</u>	<u>(88,937)</u>
Total comprehensive income (expense) for the year attributable to:			
- Owners of the Company		541,430	(3,168)
- Non-controlling interests		(69,660)	(65,293)
		<u>471,770</u>	<u>(68,461)</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings (loss) per share	9		
- Basic		102.42	(4.12)
- Diluted		<u>102.27</u>	<u>(4.12)</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018**

		2018	2017
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,657,417	1,373,026
Prepaid lease payments		293,228	515,299
Investment properties		77,281	64,532
Intangible assets		824,991	715,578
Interests in associates		23,591	15,961
Interest in a joint venture		15,716	17,433
Available-for-sale investments		—	10,859
Equity instruments at fair value through other comprehensive income		1,493	—
Loan receivables		12,850	18,410
Trade receivables	10	—	3,912
Prepayments and deposits		45,564	—
Contract assets		2,389	—
Restricted bank deposit		—	5,000
Deposits made for acquisition of property, plant and equipment		7,698	7,441
Goodwill		390,640	388,675
Deferred tax assets		<u>38,169</u>	<u>4,160</u>
		<u>3,391,027</u>	<u>3,140,286</u>
Current assets			
Properties under development		536,848	160,141
Property held for sale		—	9,213
Inventories		267,420	106,430
Prepaid lease payments		6,636	9,866
Loan receivables		16,078	4,662
Trade receivables	10	450,435	380,072
Amounts due from customers for contract work		—	16,522
Other receivables, prepayments and deposits		320,360	255,948
Contract assets		29,775	—
Amount due from a related company		140	1,704
Amounts due from associates		2,105	5,264
Amount due from a joint venture		751	159
Tax recoverable		1,126	1,497
Restricted bank balances		15,089	20,332
Pledged bank deposits		156,168	145,084
Bank deposit over three months		68,632	—
Bank balances and cash		<u>1,483,352</u>	<u>1,578,477</u>
		<u>3,354,915</u>	<u>2,695,371</u>

	<i>NOTES</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current liabilities			
Trade and other payables	11	783,040	680,736
Contract liabilities		412,462	—
Amounts due to customers for contract work		—	1,691
Provisions		59,936	41,246
Deferred income		—	95,531
Amount due to a related company		982	1,400
Amounts due to associates		720	305
Secured bank borrowings	12	155,157	146,132
Promissory note		—	46,226
Tax payable		70,095	23,339
		<u>1,482,392</u>	<u>1,036,606</u>
Net current assets		<u>1,872,523</u>	<u>1,658,765</u>
Total assets less current liabilities		<u>5,263,550</u>	<u>4,799,051</u>
Non-current liabilities			
Other payables		22,219	2,693
Convertible preferred shares		108,904	95,249
Secured bank borrowings	12	169,604	86,582
Deferred tax liabilities		163,843	130,466
		<u>464,570</u>	<u>314,990</u>
Net assets		<u>4,798,980</u>	<u>4,484,061</u>
Capital and reserves			
Share capital		38,863	39,094
Share premium and reserves		4,893,941	4,510,073
Equity attributable to owners of the Company		4,932,804	4,549,167
Non-controlling interests		(133,824)	(65,106)
		<u>4,798,980</u>	<u>4,484,061</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

Attributable to owners of the Company

	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Available-for-sale investment/ equity instruments at fair value through other comprehensive income reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	36,571	830,126	6,155	28,170	10,035	292,864	44,374	22,449	(2,120)	20,357	(118,365)	(11,302)	2,694,515	3,853,829	(25,552)	3,828,277
Loss for the 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
Issue of 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)	—	—	—
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
Profit (loss) for the year	—	—	—	—	—	—	—	—	—	—	—	—	545,573	545,573	(68,769)	476,804
Other comprehensive income (expense) for the year	—	—	—	—	—	—	—	—	—	—	5,191	(8,340)	(994)	(4,143)	(891)	(5,034)
Total comprehensive income (expense) for the year	—	—	—	—	—	—	—	—	—	—	5,191	(8,340)	544,579	541,430	(69,660)	471,770
Repurchase and cancellation of shares	(239)	(49,435)	239	—	—	—	—	—	—	—	—	—	(239)	(49,674)	—	(49,674)
Shares issued upon exercise of share options	8	2,615	—	—	—	—	—	—	—	(862)	—	—	—	1,761	—	1,761
Purchase of treasury shares	—	—	—	—	—	—	—	—	(39,324)	—	—	—	—	(39,324)	—	(39,324)
Contributions from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	127	127
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	21,531	—	—	—	21,531	—	21,531
Awarded shares vested to employees	—	—	—	—	—	—	—	—	7,094	(9,012)	—	—	1,918	—	—	—
Deemed disposal of subsidiaries to non-controlling shareholders	—	—	—	149	—	—	—	—	—	—	—	—	—	149	(149)	—
Acquisition of additional equity interests from non-controlling interests	—	—	—	(2,867)	—	—	—	—	—	—	—	—	—	(2,867)	852	(2,015)
Final dividend for 2017 paid	—	—	—	—	—	—	(44,661)	—	—	—	—	—	72	(44,589)	—	(44,589)
Interim dividend for 2018 declared and paid	—	—	—	—	—	—	—	—	—	—	—	—	(44,780)	(44,780)	—	(44,780)
Final dividend for 2018 proposed	—	—	—	—	—	—	69,809	—	—	—	—	—	(69,809)	—	—	—
Deregistration of a subsidiary	—	—	—	—	—	(354)	—	—	—	—	—	—	354	—	112	112
Transfers	—	—	—	—	—	69,735	—	—	—	—	—	—	(69,735)	—	—	—
At 31 December 2018	38,863	1,568,632	6,595	23,673	10,035	405,787	69,809	22,449	(33,182)	28,291	(106,801)	(8,340)	2,906,993	4,932,804	(133,824)	4,798,980

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH FROM OPERATING ACTIVITIES	<u>694,131</u>	<u>337,072</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(431,434)	(342,596)
Placement of bank deposits over three months	(266,960)	—
Acquisition of subsidiaries	(92,425)	(2,365)
Purchase of intangible assets	(71,518)	(37,552)
Advance of loan receivables	(12,015)	(6,817)
Deposits paid for acquisition of property, plant and equipment	(10,128)	(10,583)
Investment in an associate	(9,000)	—
Purchase of prepaid lease payments	(1,901)	(23,355)
Increase in amount due from a joint venture	(592)	(159)
Placement of pledged bank deposits	(160)	(145,089)
Withdrawal of bank deposits over three months	206,053	54,858
Interest received	15,690	8,360
Proceeds from disposal of property held for sale	8,857	—
Repayment of loan receivables	6,719	17,315
Withdrawal of restricted bank balances	5,243	—
Withdrawal of restricted bank deposit	5,000	—
Decrease in amount due from a related company	1,564	—
Proceeds from disposal of property, plant and equipment	1,252	1,751
Withdrawal of pledged bank deposits	105	393
Placement of restricted bank balances	—	(20,332)
Investment in a joint venture	—	(18,000)
Purchase of property held for sale	—	(11,238)
Purchase of available-for-sale investments	—	(10,361)
Placement of restricted bank deposit	—	(5,000)
Refund of deposit paid for acquisition of property, plant and equipment	<u>—</u>	<u>5,000</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(645,650)</u>	<u>(545,770)</u>

	2018	2017
	RMB'000	RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	250,788	1,679,758
Proceeds from shares issued upon exercise of share options	1,761	11,092
Repayment of secured bank borrowings	(169,704)	(1,472,732)
Dividends paid	(89,369)	(87,595)
Payment for repurchase and cancellation of shares	(49,674)	(49,147)
Repayment of promissory note	(45,311)	—
Payment for purchase of treasury shares	(39,324)	—
Acquisitions of additional equity interests from non-controlling interests	(2,015)	(2,422)
Proceeds from issue of new shares	—	820,921
Contribution from non-controlling interests of subsidiaries	—	22,285
	<u>—</u>	<u>22,285</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(142,848)</u>	<u>922,160</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(94,367)	713,462
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,578,477	876,532
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(758)</u>	<u>(11,517)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	<u>1,483,352</u>	<u>1,578,477</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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 immediate and ultimate holding company is DJM Holding Ltd. and 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, 20/F, 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 and mobile 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

New and amendments to HKFRSs that are mandatory effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue 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

Except for HKFRS 9 and HKFRS 15, the application of the new and 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.

New and amendments to 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 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 — 2017 Cycle ¹

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

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after beginning of the first annual period beginning on or after 1 January 2020.

⁵ Effective for annual periods beginning on or after 1 January 2020.

Except for the HKFRS16, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE, OTHER INCOME AND GAINS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue		
Online and mobile games revenue	2,367,405	1,672,858
Education revenue	2,565,556	2,105,290
Mobile solution, products and marketing revenue	<u>104,578</u>	<u>89,475</u>
	<u>5,037,539</u>	<u>3,867,623</u>

Disaggregation of revenue from contracts with customers

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

Types of goods and services

	For the year ended 31 December 2018			
	Online and mobile games revenue <i>RMB'000</i>	Education revenue <i>RMB'000</i>	Mobile solution, products and marketing revenue <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from sales of pre-paid game cards for online and mobile games	2,367,405	—	—	2,367,405
Sales of education equipment and related goods	—	2,470,477	—	2,470,477
Revenue from provision of mobile solution, products and marketing services	—	—	104,578	104,578
Revenue from educational services	<u>—</u>	<u>95,079</u>	<u>—</u>	<u>95,079</u>
	<u>2,367,405</u>	<u>2,565,556</u>	<u>104,578</u>	<u>5,037,539</u>

Timing of revenue recognition

	For the year ended 31 December 2018			
	Online and mobile games revenue <i>RMB'000</i>	Education revenue <i>RMB'000</i>	Mobile solution, products and marketing revenue <i>RMB'000</i>	Total <i>RMB'000</i>
A point in time	2,367,405	2,470,477	—	4,837,882
Over time	—	95,079	104,578	199,657
	<u>2,367,405</u>	<u>2,565,556</u>	<u>104,578</u>	<u>5,037,539</u>

Geographical information

	For the year ended 31 December 2018			
	Online and mobile games revenue <i>RMB'000</i>	Education revenue <i>RMB'000</i>	Mobile solution, products and marketing revenue <i>RMB'000</i>	Total <i>RMB'000</i>
People's Republic of China (the "PRC")	2,214,560	306,552	—	2,521,112
United States of America ("USA")	122,842	1,056,983	—	1,179,825
Russia	—	431,932	—	431,932
United Kingdom ("UK")	—	184,953	—	184,953
Germany	—	123,406	—	123,406
Hong Kong	—	1,021	98,746	99,767
France	—	68,615	—	68,615
Egypt	—	52,073	—	52,073
Australia	—	40,596	—	40,596
Netherlands	—	37,909	—	37,909
Vietnam	—	33,949	—	33,949
Spain	—	27,802	—	27,802
Italy	—	22,788	—	22,788
Ireland	—	17,468	—	17,468
India	—	15,184	—	15,184
Others	30,003	144,325	5,832	180,160
	<u>2,367,405</u>	<u>2,565,556</u>	<u>104,578</u>	<u>5,037,539</u>

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Other income and gains		
Gain on fair value changes of investment properties	9,310	10,726
Government grants (Note)	51,913	61,591
Interest income	13,328	7,066
Donation	—	540
Net foreign exchange gain	24,348	—
Game implementation income	1,851	5,413
Rental income, net of negligible outgoing expenses	14,334	6,803
Server rental income	47	290
Others	3,058	2,964
	<u>118,189</u>	<u>95,393</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 with no unfulfilled conditions or contingencies relating to the grants. In addition, the amount also included the release of approximately RMB6,161,000 (2017: RMB1,811,000) for the year ended 31 December 2018 recognised in profit or loss on a systematic basis over the estimated useful life of the property, plant and equipment related to the government grants on capital expenditure.

5. FINANCE COSTS

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on secured bank borrowings	10,756	5,918
Interest on promissory note	1,165	1,068
Other interest expense	494	3,423
	<u>12,415</u>	<u>10,409</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:

2018

	Online and mobile games RMB’000	Education RMB’000	Mobile solution, products and marketing RMB’000	Total RMB’000
Segment revenue	<u>2,367,405</u>	<u>2,565,556</u>	<u>104,578</u>	<u>5,037,539</u>
Segment profit (loss)	<u>1,401,655</u>	<u>(495,138)</u>	<u>(16,508)</u>	890,009
Unallocated other income and gains				48,925
Unallocated expenses and losses				<u>(370,781)</u>
Profit before taxation				<u>568,153</u>

2017

	Online and mobile games RMB’000	Education RMB’000	Mobile solution, products and marketing RMB’000	Total RMB’000
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 other income and gains				19,399
Unallocated expenses and losses				(364,980)
Net fair value gain on held-for-trading investment				<u>58</u>
Loss before taxation				<u>(31,728)</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 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 reportable and operating segments:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Online and mobile games	2,988,020	2,377,169
Education	2,835,697	2,257,793
Mobile solution, products and marketing	<u>179,559</u>	<u>200,240</u>
Total segment assets	6,003,276	4,835,202
Unallocated	<u>742,666</u>	<u>1,000,455</u>
	<u>6,745,942</u>	<u>5,835,657</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 ("FVTOCI")/available-for-sale investments, loan receivables, properties under development, certain prepaid lease payments and certain 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, USA, Russia and the UK.

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
PRC	2,521,112	1,890,481
USA	1,179,825	1,032,998
Russia	431,932	236,880
UK	184,953	153,290
Germany	123,406	68,542
Hong Kong	99,767	86,881
France	68,615	49,143
Egypt	52,073	2,458
Australia	40,596	50,810
Netherlands	37,909	18,164
Vietnam	33,949	20,561
Spain	27,802	21,612
Italy	22,788	25,827
Ireland	17,468	23,896
India	15,184	12,437
Others	<u>180,160</u>	<u>173,643</u>
	<u>5,037,539</u>	<u>3,867,623</u>

The Group's non-current assets, excluding equity instruments at FVTOCI/available-for-sale investments, trade receivables, restricted bank deposit, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
PRC	2,076,515	1,939,035
UK	739,784	773,642
Hong Kong	233,070	309,040
USA	287,949	74,668
France	43	135
Germany	182	265
Thailand	<u>972</u>	<u>1,160</u>
	<u>3,338,515</u>	<u>3,097,945</u>

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2018 and 2017.

7. TAXATION

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
The tax charge comprises:		
Hong Kong Profits Tax		
- Current year	6,138	6,209
- (Over) under provision in prior years	<u>(1,746)</u>	<u>230</u>
	<u>4,392</u>	<u>6,439</u>
PRC Enterprise Income Tax (“EIT”)		
- Current year	122,485	55,450
- Withholding tax	4,216	6,419
- (Over) under provision in prior years	<u>(2,499)</u>	<u>60</u>
	<u>124,202</u>	<u>61,929</u>
Taxation in other jurisdictions		
- Current year	4,060	1,441
- Under (over) provision in prior years	<u>338</u>	<u>(2,788)</u>
	<u>4,398</u>	<u>(1,347)</u>
Deferred taxation		
- Current year	<u>(41,643)</u>	<u>(9,812)</u>
	<u>91,349</u>	<u>57,209</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 2018, the USA income tax rates applicable to subsidiaries incorporated in the USA is 21% (2017: 39%) for federal tax and 8.84% (2017: 8.84%) for state income tax.

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

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

8. DIVIDENDS

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends recognised as distribution during the year:		
2018 Interim - HKD0.10 (2017: 2017 Interim dividend of HKD0.10) per share	44,780	43,137
2017 Final - HKD0.10 (2017: 2016 Final dividend of HKD0.10) per share	<u>44,589</u>	<u>44,458</u>
	<u>89,369</u>	<u>87,595</u>

The final dividend of HKD0.15 (2017: HKD0.10) 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 RMB69,809,000 (2017: RMB44,661,000).

9. EARNINGS (LOSS) PER SHARE

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share:		
- Profit (loss) for the year attributable to the owners of the Company	<u>545,573</u>	<u>(20,843)</u>
	Number of shares	
	2018	2017
	'000	'000
Weighted average number of shares in issue during the year for the purpose of basic earnings (loss) per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	532,665	506,081
Effect of dilutive potential shares from the Company's share option scheme (Note)	<u>805</u>	<u>—</u>
Number of shares for the purpose of calculating diluted earnings (loss) per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>533,470</u>	<u>506,081</u>

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	468,871	390,467
Less: Allowance of credit losses	<u>(18,436)</u>	<u>(6,483)</u>
	<u>450,435</u>	<u>383,984</u>

As at 31 December 2018 and 1 January 2018, trade receivable from contracts with customers amounted to RMB450,435,000 and RMB383,984,000, respectively.

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 credit losses presented based on the date of delivery of goods/date of rendering of services which approximated the respective revenue recognition dates.

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Trade debtors		
0 - 30 days	233,932	227,847
31 - 60 days	107,939	81,630
61 - 90 days	45,849	29,269
Over 90 days	54,563	29,509
Receivables with extended credit terms		
Due within one year	8,152	11,817
Due after one year	<u>—</u>	<u>3,912</u>
	<u>450,435</u>	<u>383,984</u>

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB132,176,000 which are past due as at the reporting date. Out of the past due balances, RMB48,112,000 has been past due 90 days or more and is not considered as in default 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.

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.

11. TRADE AND OTHER PAYABLES

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	281,236	242,169
Accrued staff costs	224,604	183,284
Government grants (a)	12,974	13,495
Receipt in advance (b)	385	86,511
Other tax payables	38,633	26,476
Others (c)	<u>225,208</u>	<u>128,801</u>
	<u>783,040</u>	<u>680,736</u>

Notes:

- (a) Government grants are assets related and amortised over the life of related assets or costs related and recognised as income over the period when the Group recognised expense for the related costs for which the Group is entitled to be compensated.
- (b) As at 1 January 2018, approximately RMB86,445,000 included in receipt in advance was reclassified to contract liabilities upon the application of HKFRS 15.
- (c) Others mainly represent advertising payable, office and server rental payable, consideration 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.

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	252,832	230,001
91 - 180 days	21,552	7,931
181 - 365 days	698	2,288
Over 365 days	<u>6,154</u>	<u>1,949</u>
	<u>281,236</u>	<u>242,169</u>

12. SECURED BANK BORROWINGS

The carrying amount of the secured bank borrowings is repayable:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	155,157	146,132
Within a period of more than one year but not exceeding two years	81,599	1,246
Within a period of more than two years but within five years	<u>88,005</u>	<u>85,336</u>
	324,761	232,714
Less: Amounts due within one year shown under current liabilities	<u>(155,157)</u>	<u>(146,132)</u>
Amounts shown under non-current liabilities	<u>169,604</u>	<u>86,582</u>

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 its subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2018, the Group had pledged bank deposits, restricted bank deposit, bank deposit over three months, restricted bank balances and bank balances and cash of approximately RMB1,723.2 million (31 December 2017: RMB1,748.9 million). The gearing ratio (consolidated secured bank borrowings/consolidated total equity) was 0.07 (31 December 2017: 0.05). As at 31 December 2018, total secured bank borrowings of the Group amounted to approximately RMB324.8 million (31 December 2017: RMB232.7 million) which were variable-rate loans. The bank borrowings were secured by a pledged bank deposit, a pledge of property of a subsidiary, and corporate guarantee provided by the Company and its subsidiaries.

As at 31 December 2018, the Group had net current assets of approximately RMB1,872.5 million as compared with approximately RMB1,658.8 million as at 31 December 2017.

STAFF INFORMATION

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

	At 31 December 2018	At 30 June 2018	At 31 December 2017
Research and development	3,504	3,475	3,836
Selling and marketing	1,310	1,296	1,384
Accounting, finance and general administration	955	956	948
Production	331	311	278
Total	<u>6,100</u>	<u>6,038</u>	<u>6,446</u>

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

As at 31 December 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)	48.16%
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)	48.16%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	255,822,457 (L)	48.16%
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)	2.11%
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	692,019 (L)	0.13%
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 35.97% 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 5.31% 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 3.58% 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 2.62% 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 48.16% 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 2.11% 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 0.13% of the issued voting shares of the Company which is represented by personal interest of 274,019 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 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 31 December 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:

Name of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	35.97%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320 (L)	14.75%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320 (L)	14.75%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095 (L)	13.84%
First Elite Group Limited <i>(Note 3)</i>	The Company	Beneficial owner and through controlled corporation	0 (L)	0%
Jardine PTC Limited <i>(Note 3)</i>	The Company	Trustee	26,541,819 (L)	5.00%

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 2.05%, 9.79%, 2.00% 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 was dissolved in November 2018. 26,541,819 shares directly held by Richmedia Holdings Limited, a company wholly-owned 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 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 “New Share Option Scheme”) to replace the existing share option scheme which expired on 12 June 2018 (the “Existing Share Option Scheme”). As at the date of this announcement, no share options were granted and there were no outstanding share options under the New Share Option Scheme. Details of the share options outstanding and movement during the year ended 31 December 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	31 December 2018
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	359,367	—	14,375	1,500	343,492
	22.07.2011	4.60	8,000	—	—	—	8,000
	23.04.2012	5.74	175,717	—	25,600	—	150,117
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	277,275	—	25,950	—	251,325
	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>125,925</u>	<u>1,500</u>	<u>2,689,684</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. 1,979,520 awarded shares granted to a number of selected participants were outstanding as at 31 December 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 586,100 vested awarded shares as at 31 December 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 31 December 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.

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 87.60% to approximately 79.25%.

As at 31 December 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) was 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 31 December 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 year ended 31 December 2018.

FINAL DIVIDEND

At the Board meeting held on Tuesday, 26 March 2019, it was proposed that a final dividend of HKD0.15 per share for the year ended 31 December 2018, amounting to approximately RMB69,809,000 be paid on or before Friday, 5 July 2019 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Wednesday, 12 June 2019. 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, 6 June 2019.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2019 AGM

The Company's register of members will be closed from Friday, 31 May 2019 to Thursday, 6 June 2019, 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, 30 May 2019 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 HKD0.15 per share for the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on Thursday, 13 June 2019 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 Thursday, 13 June 2019 to Friday, 14 June 2019, 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 Wednesday, 12 June 2019.

PUBLICATION OF FINAL RESULTS AND 2018 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, 6 June 2019. 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 2018 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.

CESSATION TO FURTHER ANNOUNCE AND PUBLISH QUARTERLY FINANCIAL RESULTS

On 3 May 2018, the Board announced that as resolved at a meeting in May 2018, the Company would not announce and publish the Company's quarterly financial results for the first three-month and nine-month periods of this and subsequent financial years in order to reduce the administrative burden of the Company and allow the Company to devote more of resources towards the development of its business. The Board considered that with its rapidly developing business and expected seasonality, this arrangement would be in the best interest of the Company.

The Company will continue to announce and publish its interim and annual results and reports in accordance with the requirements of 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 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 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 year ended 31 December 2018, the Company bought back a total of 899,000 shares on the Stock Exchange at an aggregate consideration of HKD12,042,864 before expenses.

Details of the shares buy-backs are as follows:

Month of shares bought back	Number of ordinary shares bought back	Price per share		Aggregate consideration paid
		Highest	Lowest	
		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
January 2018	26,000	21.85	21.85	568,100
June 2018	89,000	17.10	16.78	1,513,340
December 2018	784,000	13.28	11.96	9,961,424

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

Hong Kong, 26 March 2019

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.