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NetDragon Websoft Holdings Limited

網龍網絡控股有限公司

(formerly known as “NetDragon Websoft Inc. 網龍網絡有限公司”)

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2016**

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Holdings Limited (the “Company”) announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2016. The first quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2016 together with the comparative figures in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2016

	NOTES	Three months ended 31 March	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Revenue	4	571,637	246,216
Cost of revenue		<u>(225,192)</u>	<u>(39,023)</u>
Gross profit		346,445	207,193
Other income and gains	4	15,611	26,544
Selling and marketing expenses		(122,214)	(30,826)
Administrative expenses		(191,584)	(106,926)
Development costs		(169,112)	(87,889)
Other expenses and losses		(6,772)	(5,556)
Share of losses of associates		<u>(743)</u>	<u>(3,545)</u>
Operating loss		(128,369)	(1,005)
Interest income on pledged bank deposit		—	1,590
Exchange gain on pledged bank deposit, secured bank borrowing and convertible preferred shares		2,192	—
Gain on derivative financial instrument		3,661	—
Gain on disposal of held-for-trading investment		—	1,401
Net loss on held-for-trading investments		(3,245)	(9,741)
Finance costs		<u>(2,737)</u>	<u>(817)</u>
Loss before taxation		(128,498)	(8,572)
Taxation	6	<u>(6,295)</u>	<u>(4,493)</u>
Loss for the period	7	(134,793)	(13,065)
Other comprehensive (expense) income for the period, net of income tax			
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss		<u>(10,084)</u>	<u>299</u>
Total comprehensive expense for the period		<u>(144,877)</u>	<u>(12,766)</u>

		Three months ended	
		31 March	
		2016	2015
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTE</i>	RMB'000	RMB'000
Loss for the period attributable to:			
- Owners of the Company		(113,563)	(10,914)
- Non-controlling interests		<u>(21,230)</u>	<u>(2,151)</u>
		<u>(134,793)</u>	<u>(13,065)</u>
 Total comprehensive expense attributable to:			
- Owners of the Company		(122,340)	(10,615)
- Non-controlling interests		<u>(22,537)</u>	<u>(2,151)</u>
		<u>(144,877)</u>	<u>(12,766)</u>
		RMB cents	RMB cents
Loss per share	9		
- Basic		(22.98)	(2.21)
- Diluted		<u>(22.98)</u>	<u>(2.21)</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016**

		31 March 2016	31 December 2015
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	10	1,298,664	1,246,117
Prepaid lease payments	11	439,119	438,677
Investment properties		52,828	55,377
Intangible assets		897,667	953,950
Interests in associates		16,902	18,883
Available-for-sale investments		5,000	5,000
Loan receivables		23,036	23,081
Trade receivables	12	18,749	18,112
Deposits made for acquisition of property, plant and equipment		21,212	18,302
Deposit made for available-for-sale investment		24,004	—
Goodwill		340,951	334,839
Deferred tax assets		3,675	3,611
		<u>3,141,807</u>	<u>3,115,949</u>
Current assets			
Inventories		121,621	117,584
Prepaid lease payments	11	6,789	2,733
Loan receivables		3,707	3,397
Trade receivables	12	271,664	234,733
Amounts due from customers for contract work		3,324	4,339
Other receivables, prepayments and deposits		124,364	115,918
Amount due from a related company		1,704	1,704
Amounts due from associates		11,532	11,204
Tax recoverable		10,849	11,159
Held-for-trading investment		167,395	170,640
Bank deposits		342,145	583,091
Bank balances and cash		917,980	1,126,957
		<u>1,983,074</u>	<u>2,383,459</u>
Assets classified as held for sale		<u>—</u>	<u>2,690</u>
		<u>1,983,074</u>	<u>2,386,149</u>

		31 March 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
	<i>NOTES</i>		
Current liabilities			
Trade and other payables	13	400,729	507,592
Amounts due to customers for contract work		1,346	993
Provisions		26,504	29,373
Deferred income		78,284	85,039
Amount due to a related company		2,720	2,254
Amounts due to associates		10,078	9,632
Convertible preferred shares	14	273,395	278,499
Secured bank borrowing	15	70,307	25,142
Income tax payable		27,990	95,194
		<u>891,353</u>	<u>1,033,718</u>
Net current assets		<u>1,091,721</u>	<u>1,352,431</u>
Total assets less current liabilities		<u>4,233,528</u>	<u>4,468,380</u>
Non-current liabilities			
Other payables		12,723	12,723
Provisions		1,918	2,027
Deferred tax liabilities		140,217	149,993
		<u>154,858</u>	<u>164,743</u>
Net assets		<u>4,078,670</u>	<u>4,303,637</u>
Capital and reserves			
Share capital		36,378	36,726
Share premium and reserves		4,055,391	4,257,120
Equity attributable to owners of the Company		4,091,769	4,293,846
Non-controlling interests		(13,099)	9,791
		<u>4,078,670</u>	<u>4,303,637</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2016

	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	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	36,943	930,286	5,223	38,755	10,045	253,699	78,865	673	(4,335)	31,872	(59,349)	3,244,237	4,566,914	50,489	4,617,403
Loss for the period	—	—	—	—	—	—	—	—	—	—	—	(10,914)	(10,914)	(2,151)	(13,065)
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	299	—	299	—	299
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	299	(10,914)	(10,615)	(2,151)	(12,766)
Repurchase and cancellation of shares	(486)	(70,095)	486	—	—	—	—	—	—	—	—	(486)	(70,581)	—	(70,581)
Shares issued upon exercise of share options	12	1,106	—	—	—	—	—	—	—	(371)	—	—	747	—	747
Reversal of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	(112)	—	—	(112)	—	(112)
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,082	(2,178)	—	1,096	—	—	—
Adjustment arising from transfer of associates to a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	3,353	3,353
Dividend paid to non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	(239)	(239)
Transfer upon deregistration of a subsidiary	—	—	—	—	(10)	(69)	—	—	—	—	—	69	(10)	(16)	(26)
At 31 March 2015 (unaudited)	36,469	861,297	5,709	38,755	10,035	253,630	78,865	673	(3,253)	29,211	(59,050)	3,234,002	4,486,343	51,436	4,537,779
At 1 January 2016	36,726	887,340	5,709	39,464	10,035	260,714	49,767	22,449	(3,253)	26,593	(48,018)	3,006,320	4,293,846	9,791	4,303,637
Loss for the period	—	—	—	—	—	—	—	—	—	—	—	(113,563)	(113,563)	(21,230)	(134,793)
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(8,777)	—	(8,777)	(1,307)	(10,084)
Total comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(8,777)	(113,563)	(122,340)	(22,537)	(144,877)
Repurchase and cancellation of shares	(357)	(78,585)	357	—	—	—	—	—	—	—	—	(357)	(78,942)	—	(78,942)
Shares issued upon exercise of share options	9	793	—	—	—	—	—	—	—	(233)	—	—	569	—	569
Reversal of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	(477)	—	—	(477)	—	(477)
Awarded shares vested to employees	—	—	—	—	—	—	—	—	538	(1,046)	—	508	—	—	—
Acquisition of additional equity interests from non-controlling interests	—	—	—	(887)	—	—	—	—	—	—	—	—	(887)	(99)	(986)
Acquisition of a non-wholly owned subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	861	861
Dividend paid to non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,115)	(1,115)
At 31 March 2016 (unaudited)	36,378	809,548	6,066	38,577	10,035	260,714	49,767	22,449	(2,715)	24,837	(56,795)	2,892,908	4,091,769	(13,099)	4,078,670

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2016**

	Three months ended 31 March	
	2016	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
NET CASH USED IN OPERATING ACTIVITIES	<u>(320,949)</u>	<u>(35,101)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(87,645)	(108,066)
Purchase of prepaid lease payments	(5,850)	(38,119)
Purchase of intangible assets	(7,903)	(1,600)
Payment for deposits of property, plant and equipment	(4,421)	(2,030)
Payment for deposit of available-for-sale investment	(24,004)	—
Placement of bank deposits	(423,528)	(533,635)
Withdrawal of bank deposits	660,236	1,569,401
Other investing cash flows	<u>19,688</u>	<u>61,274</u>
NET CASH FROM INVESTING ACTIVITIES	<u>126,573</u>	<u>947,225</u>
FINANCING ACTIVITIES		
Repayment of bank borrowing	(399,075)	—
Payment for repurchase of shares	(78,942)	(70,581)
Proceeds from issue of convertible preferred shares	—	235,905
New bank borrowing raised	444,531	—
Other financing activities	<u>(599)</u>	<u>482</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(34,085)</u>	<u>165,806</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(228,461)	1,077,930
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,126,957	1,036,788
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>19,484</u>	<u>(1,358)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>917,980</u>	<u>2,113,360</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2016**

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.

Pursuant to the special resolution passed by the shareholders at the annual general meeting held on 19 May 2016, the name of the Company was changed from NetDragon Websoft Inc. to NetDragon Websoft Holdings Limited.

The Company is an investment holding company. The principal activities of the Group are engaged in (i) online games development, including games design, programming and graphics and online games operation, (ii) education business and (iii) mobile solution and mobile marketing business.

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

2. BASIS OF PREPARATION

The amounts included in the condensed consolidated financial statements have been computed in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA applicable to interim periods. However, it does not contain sufficient information to constitute a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA.

3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the three months ended 31 March 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

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

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

4. REVENUE, OTHER INCOME AND GAINS

	Three months ended	
	31 March	
	2016	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Online game revenue	284,067	224,330
Education revenue	279,942	9,982
Mobile solution and mobile marketing revenue	7,628	11,904
	<u>571,637</u>	<u>246,216</u>
Other income and gains		
Government grants (<i>Note</i>)	3,663	2,840
Interest income	7,728	17,900
Net foreign exchange gain	—	1,886
Game implementation income	505	3,564
Gain on disposal of assets classified as held for sale	1,601	—
Net rental income	1,399	208
Others	715	146
	<u>15,611</u>	<u>26,544</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 services provided.

The following is an analysis of the Group's revenue and results by reportable segment:

Three months ended 31 March 2016

	Online game	Education	Mobile solution and mobile marketing	Total
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	<u>284,067</u>	<u>279,942</u>	<u>7,628</u>	<u>571,637</u>
Segment profit (loss)	<u>95,985</u>	<u>(127,790)</u>	<u>(7,935)</u>	(39,740)
Unallocated income and gains				7,583
Unallocated expenses and losses				(93,096)
Net loss on held-for-trading investment				<u>(3,245)</u>
Loss before taxation				<u>(128,498)</u>

Three months ended 31 March 2015

	Online game	Education	Mobile solution and mobile marketing	Total
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	<u>224,330</u>	<u>9,982</u>	<u>11,904</u>	<u>246,216</u>
Segment profit (loss)	<u>45,227</u>	<u>(17,687)</u>	<u>(3,266)</u>	24,274
Unallocated income and gains				21,224
Unallocated expenses and losses				(44,329)
Net loss on held-for-trading investments				<u>(9,741)</u>
Loss before taxation				<u>(8,572)</u>

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

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

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

	31 March 2016 <i>(Unaudited)</i> <i>RMB'000</i>	31 December 2015 <i>(Audited)</i> <i>RMB'000</i>
Online game	2,443,651	2,699,063
Education	1,997,998	1,841,183
Mobile solution and mobile marketing	<u>165,655</u>	<u>165,992</u>
Total segment assets	4,607,304	4,706,238
Unallocated	<u>517,577</u>	<u>795,860</u>
	<u>5,124,881</u>	<u>5,502,098</u>

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segments other than those assets managed on group basis, such as available-for-sale investments, held-for-trading investment, loan receivables, certain bank deposits and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

6. TAXATION

	Three months ended	
	31 March	
	2016	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
The tax charge comprises:		
Hong Kong Profits Tax	2,388	1,514
The PRC Enterprise Income Tax ("EIT")	7,110	2,937
Taxation in other jurisdiction	143	42
Deferred tax	<u>(3,346)</u>	<u>—</u>
	<u>6,295</u>	<u>4,493</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months ended 31 March 2016 and 31 March 2015.

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

United Kingdom corporation tax rate applicable to subsidiaries is 20% for the three months ended 31 March 2016.

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

7. LOSS FOR THE PERIOD

	Three months ended	
	31 March	
	2016	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	2,111	1,351
Other staff costs		
Salaries and other benefits	271,425	129,114
Contributions to retirement benefits schemes	22,756	13,878
Share-based payments expense	<u>(859)</u>	<u>652</u>
	<u>295,433</u>	<u>144,995</u>
Amortisation of intangible assets	31,233	4,313
Release of prepaid lease payments (included in administrative expenses)	1,352	760
Depreciation of property, plant and equipment	<u>34,463</u>	<u>25,418</u>
Total depreciation and amortisation	<u>67,048</u>	<u>30,491</u>
Cost of goods sold for education equipment	176,169	9
Operating lease rentals in respect of:		
- rented premises	15,608	9,429
- computer equipment	12,989	14,182
Gross rental income from investment properties	412	—
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	<u>—</u>	<u>—</u>
	<u>412</u>	<u>—</u>
Loss on disposal of property, plant and equipment	1,028	152
Adjustment arising from transfer of associates to a non-wholly owned subsidiary	—	3,353
Fair value change of remeasurement of previously held equity interest in an associate upon acquisition	1,075	—
Change in fair value of investment properties	2,264	—
Net foreign exchange loss (gain)	<u>22,885</u>	<u>(1,886)</u>

8. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend during the three months ended 31 March 2016 (three months ended 31 March 2015: Nil).

9. LOSS PER SHARE

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

	Three months ended 31 March	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Loss for the purpose of basic and diluted loss per share:		
- loss for the period attributable to the owners of the Company	<u>(113,563)</u>	<u>(10,914)</u>
	Number of shares Three months ended 31 March	
	2016	2015
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of shares in issue during the period for the purpose of basic loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	494,155	493,509
Effect of dilutive potential shares from the Company's share option scheme (<i>Note</i>)	<u>—</u>	<u>—</u>
Number of shares for the purpose of calculating diluted loss per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>494,155</u>	<u>493,509</u>

Note: The calculation of diluted loss per share for the three months ended 31 March 2016 and 2015 does not assume the exercise of the Company's outstanding share options as the exercise of the Company's share option would result in a decrease in loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the three-month period ended 31 March 2016, the deposits of approximately RMB1,511,000 were transferred to property, plant and equipment (three-month period ended 31 March 2015: RMB3,088,000) and the Group spent approximately RMB87,645,000 (three-month period ended 31 March 2015: RMB108,066,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB19,816,000 (three-month period ended 31 March 2015: RMB12,512,000) in plant and equipment and RMB56,746,000 (three-month period ended 31 March 2015: RMB91,397,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

11. PREPAID LEASE PAYMENTS

During the three-month period ended 31 March 2016, the Group spent approximately RMB5,850,000 (three-month period ended 31 March 2015: RMB38,119,000) for the acquisition of prepaid lease payments to expand its buildings located in Fuzhou. The Group is in the process of obtaining the land use right certificates. During the three-month period ended 31 March 2015, the deposits of approximately RMB24,639,000 were transferred to prepaid lease payments.

12. 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.

	31 March 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Trade debtors		
0 - 30 days	174,354	126,351
31 - 60 days	52,958	63,674
61 - 90 days	16,724	19,197
Over 90 days	20,275	13,681
Receivables with extended credit terms		
Due within one year	7,353	11,830
Due after one year	18,749	18,112
	<u>290,413</u>	<u>252,845</u>

13. TRADE AND OTHER PAYABLES

	31 March 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Trade payables	135,178	198,132
Accrued staff costs	116,325	133,786
Receipt in advance	21,926	30,442
Other tax payables (<i>Note a</i>)	11,157	15,430
Other payables and accruals (<i>Note b</i>)	<u>116,143</u>	<u>129,802</u>
	<u>400,729</u>	<u>507,592</u>

Notes:

- a. On 28 December 2011, 91 Wireless Websoft Limited (“91 Limited”) introduced a share award scheme, whereby eligible participants are conferred rights by 91 Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Limited. Upon the disposal of 91 Limited and its subsidiaries (“91 Group”) on 1 October 2013, the eligible participants would be entitled to the merger consideration of USD13.168 per share and the special dividend of USD0.371 per share of 91 Limited in cash, which were both received by the Group on behalf of the eligible participants. Included in other tax payables, an amount of approximately RMB0.8 million (2015: RMB0.8 million) of withholding PRC personal income tax calculated at the applicable tax rate and other surcharges was withheld by the Group.
- b. Other payables and accruals mainly represent construction payable, dividend 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.

	31 March 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
0 - 90 days	117,696	137,998
91 - 180 days	15,834	57,186
181 - 365 days	1,188	2,297
Over 365 days	<u>460</u>	<u>651</u>
	<u>135,178</u>	<u>198,132</u>

14. CONVERTIBLE PREFERRED SHARES

Best Assistant Education Online Limited, an indirect non-wholly owned subsidiary of the Company issued 180,914,513 Series A convertible preferred shares of par value of USD0.001 each at an aggregate issue price of USD52,500,000 (equivalent to approximately RMB321,762,000) to IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (which collectively own approximately 13.68% 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. (“NetDragon BVI”), a direct wholly owned subsidiary of the Company on 13 February 2015. The Series A convertible preferred shares are denominated in USD.

Conversion

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

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

Dividends

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

Liquidation

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

The Series A convertible preferred shares are classified as current liabilities.

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

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

	31 March 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
At the beginning of the period	278,499	—
Issue of convertible preferred shares	—	260,474
Payment for repurchase of shares by the Group	(53)	—
Fair value change	(3,661)	2,521
Exchange realignment	<u>(1,390)</u>	<u>15,504</u>
At the end of the period	<u>273,395</u>	<u>278,499</u>

15. SECURED BANK BORROWING

The secured bank borrowing carries interest rate of 200 to 250 basis points over 30-day London Inter-Bank Offer Rate. The borrowing was secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

16. SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

On 22 April 2016, Cherrypicks International Holdings Limited (the “First Purchaser”) and NetDragon BVI (the “Second Purchaser”), both are wholly-owned subsidiaries of the Company, entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) with Chiu Tsz Kiu Jason Felix (the “First Vendor”) and Cherrypicks Alpha Holdings Limited (the “First Target Company”). Pursuant to the Sale and Purchase Agreement, (i) the First Vendor conditionally agreed to sell and the First Purchaser conditionally agreed to acquire the one ordinary issued share in the share capital of the First Target Company for consideration of USD1,500,000 and the incentive shares issued by the First Purchaser which represented 7.8% of the shareholding interest of the First Purchaser; and (ii) the First Target Company conditionally agreed to sell and the Second Purchaser conditionally agreed to acquire the entire issued share capital of Cherrypicks Alpha Resources Limited, a wholly-owned subsidiary of the First Target Company, for an aggregate consideration of USD3,160,000 which shall be satisfied in full by the allotment and issue of 1,087,621 new shares of the Company credited as fully paid up at an issue price of HKD22.6623 (the “Consideration Shares”). The completion of the Sale and Purchase Agreement took place on 19 May 2016. The Consideration Shares were allotted and issued on 19 May 2016 pursuant to the general mandate granted to the directors by the shareholders at the annual general meeting of the Company on 21 May 2015. The directors of the Company are in the process of ascertaining the financial impact arising on this transaction.

Further details of the acquisition are set out in the announcements of the Company dated 22 April 2016, 3 May 2016 and 19 May 2016, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

2016 First Quarter Financial Highlights

- Revenue was RMB571.6 million: 14.2% increase quarter-over-quarter; and 132.2% increase year-over-year
- Revenue from the games business was RMB284.1 million: 0.3% increase quarter-over-quarter; and 26.6% increase year-over-year
- Revenue from the education business was RMB279.9 million: 33.4% increase quarter-over-quarter; and 2,704.5% increase year-over-year
- Gross profit was RMB346.4 million: 10.9% increase quarter-over-quarter; and 67.2% increase year-over-year
- Adjusted segmental profit² from the games business was RMB107.4 million: 5.5% increase quarter-over-quarter; and 153.4% increase year-over-year
- Adjusted segmental loss² from the education business was RMB146.5 million: 12.3% increase quarter-over-quarter; and 728.4% increase year-over-year
- Non-GAAP¹ operating loss was RMB111.8 million which an increased operating loss of RMB59.5 million from Promethean is expected as first quarter is a traditional off-season for education business, together with a net exchange loss of RMB20.7 million which is predominantly attributed to currency fluctuation exchange and is unrelated to the core operational performance of the business.
- Going into the second quarter which is the peak season in the international education markets, the Company expects a significant uptick in both top and bottom line

2016 First Quarter Gaming Operational Metrics

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

	Three months ended				
	31 March 2016	31 December 2015	30 September 2015	30 June 2015	31 March 2015
PCU	748,000	752,000	761,000	708,000	703,000
ACU	332,000	317,000	360,000	318,000	309,000

Note: As at 31 March 2016, our online games include Conquer Online, Eudemons Online, Calibur of Spirit, Zero Online, Way of the Five, Tou Ming Zhuang Online, Tian Yuan and other games.

- ACU for online games was approximately 332,000, a 4.7% increase quarter-over-quarter and 7.4% increase year-over-year
- PCU for online games was approximately 748,000, a 0.5% decrease quarter-over-quarter and 6.4% increase year-over-year
- Monthly average revenue per user (“ARPU”) for online games was approximately RMB255, a 5.9% decrease quarter-over-quarter and 25.6% increase year-over-year

Segmental Financial Highlights

(RMB'000)	FY2016 Q1		FY2015 Q4		FY2015 Q1	
	Gaming Education		Gaming Education		Gaming Education	
Revenue	284,067	279,942	283,245	209,826	224,330	9,982
Gross profit	264,857	82,936	264,162	49,474	202,741	2,655
Gross margin	93.2%	29.6%	93.3%	23.6%	90.4%	26.6%
Adjusted segmental profit (loss) ²	107,398	(146,527)	101,757	(130,425)	42,387	(17,687)
Segmental operating expenses ³						
- Research and development	(77,344)	(87,848)	(76,331)	(72,910)	(74,708)	(13,158)
- Selling and marketing	(33,520)	(87,837)	(36,922)	(57,659)	(27,153)	(3,266)
- Administrative	(60,464)	(38,952)	(56,707)	(32,807)	(56,006)	(7,059)

Note 1: To supplement the consolidated results of the Group prepared in accordance with HKFRSs, the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Group’s current financial performance. These non-GAAP measures are not expressly permitted measures under HKFRS and may not be comparable to similarly titled measures for other companies. The non-GAAP financial measures of the Group exclude share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, exchange gain on secured bank borrowing and convertible preferred shares, gain on derivative financial instruments, net loss on held-for-trading investments, fair value change of remeasurement of previously held equity interest in an associate upon acquisition and finance costs.

Note 2: Adjusted segmental profit/loss figures are derived from the Company’s reported segmental profit/loss figures (presented in accordance with HKFRS 8) but exclude non-core/operating or non-recurring items including government grants, one-time write-back of reserve, fair value change of financial assets, net gain on derivative financial instrument (related to Series A preferred shares of education subsidiary), and net loss on held-for-trading investments.

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

The following table sets forth the comparative figures for the first quarter of 2016, the fourth quarter of 2015 and the first quarter of 2015:

	Three months ended		
	31 March 2016 (Unaudited) RMB'000	31 December 2015 (Unaudited) RMB'000	31 March 2015 (Unaudited) RMB'000
Revenue	571,637	500,560	246,216
Cost of revenue	<u>(225,192)</u>	<u>(188,159)</u>	<u>(39,023)</u>
Gross profit	346,445	312,401	207,193
Other income and gains	15,611	87,443	26,544
Selling and marketing expenses	(122,214)	(93,982)	(30,826)
Administrative expenses	(191,584)	(161,490)	(106,926)
Development costs	(169,112)	(154,726)	(87,889)
Other expenses and losses	(6,772)	(12,080)	(5,556)
Share of losses of associates	<u>(743)</u>	<u>(1,423)</u>	<u>(3,545)</u>
Operating loss	(128,369)	(23,857)	(1,005)
Interest income on pledged bank deposit	—	1,171	1,590
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and convertible preferred shares	2,192	(5,623)	—
Gain (loss) on derivative financial instruments	3,661	(16,322)	—
Gain on disposal of held-for-trading investment	—	—	1,401
Net (loss) gain on held-for-trading investments	(3,245)	3,922	(9,741)
Finance costs	<u>(2,737)</u>	<u>(2,940)</u>	<u>(817)</u>
Loss before taxation	(128,498)	(43,649)	(8,572)
Taxation	<u>(6,295)</u>	<u>(80,609)</u>	<u>(4,493)</u>
Loss for the period	<u>(134,793)</u>	<u>(124,258)</u>	<u>(13,065)</u>
Loss for the period attributable to:			
- Owners of the Company	(113,563)	(98,075)	(10,914)
- Non-controlling interests	<u>(21,230)</u>	<u>(26,183)</u>	<u>(2,151)</u>
	<u>(134,793)</u>	<u>(124,258)</u>	<u>(13,065)</u>

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2016, we had bank deposits and bank balances and cash of approximately RMB1,260.1 million (31 December 2015: RMB1,710.0 million). The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.02 (31 December 2015: 0.01). As at 31 March 2016, total bank borrowing of the Group amounted to approximately RMB70.3 million (31 December 2015: RMB25.1 million) was floating-rate loan and was secured by share pledges over the shares and fixed and floating charges over the assets of certain subsidiaries.

As at 31 March 2016, the Group had net current assets of approximately RMB1,091.7 million as compared with approximately RMB1,352.4 million as at 31 December 2015.

STAFF INFORMATION

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

	At 31 March 2016	At 31 December 2015	At 31 March 2015
Research and development	2,991	2,874	2,061
Selling and marketing	1,091	1,009	677
Accounting, finance and general administration	917	828	640
<u>Production</u>	<u>173</u>	<u>173</u>	<u>—</u>
Total	<u>5,172</u>	<u>4,884</u>	<u>3,378</u>

BUSINESS REVIEW AND OUTLOOK

The Group recorded encouraging financial results during the quarter and further strengthened the market position in the games and education businesses. The Group continued to optimize the gaming portfolio with high-quality IP-based games. Calibur of Spirit (英魂之刃) and Eudemons Online Pocket version* (魔域口袋版) continued to be well received among our players and secured continuous growth in user base and monthly gross revenue. In addition, it is pleased with the remarkable

* For identification purpose only

48.3% year-over-year revenue growth of Promethean to RMB279.5 million in the first quarter of 2016 on a pro-forma basis, demonstrating initial success in the integration efforts and a solid start of the international expansion in the education business.

As the Group strive to be the leader of building Internet communities, the Group continue to invest heavily in products and technologies, and expand with focus in the education and gaming sectors. The Group recently completed the acquisition of Cherrypicks Alpha, which will bring world-class Augmented Reality ("AR") technologies into our portfolio. The Group also announced a significant investment in and setting up of a joint venture with ARHT Media Inc. Through this joint venture which will own the exclusive license to ARHT Media Inc.'s industry-leading hologram technologies in China and selected Asian markets, the Group expect to create great opportunities in the professional training market.

Games Business

The Company continued to see strong growth momentum of the games business in the first quarter of 2016, with revenue recorded at RMB284.1 million, an increase of 26.6% year-over-year.

This solid performance was mainly attributable to the outstanding revenue contribution of Calibur of Spirit (英魂之刃) and the stable growth of Eudemons Online (魔域). In addition, various operational indicators continued to improve, with an increase of 6.4% year-over-year of PCU at approximately 748,000, an increase of 7.4% year-over-year of ACU at 332,000, and a 25.6% year-over-year increase of monthly ARPU to RMB255.

A series of promotional events and content updates pushed the operational indicators of Calibur of Spirit (英魂之刃) to record highs. The game's monthly gross revenue reached RMB49.3 million in February 2016, while DAU reached 1.7 million in March 2016. Eudemons Online Pocket version* (魔域口袋版) launched new expansion packs during the period that drove its monthly gross revenue also to a record high during the quarter, giving a healthy boost to the Company's revenue.

2016 will be an exciting year for the Company's games business. The Company will continue to boost the participation of users by launching new versions of successful game titles, build a more diversified games portfolio and explore opportunities in the virtual reality (VR) space.

** For identification purpose only*

Riding on the success of Calibur of Spirit (英魂之刃), the Company will continue to enhance the sporting nature of the game, launch the eagerly-awaited mobile version in the second half of 2016, and expand overseas. Calibur of Spirit's (英魂之刃) overseas version is currently available in Singapore, Malaysia, and Vietnam, and the Company has entered into licensing agreements in multiple markets including Hong Kong, Macau, Portugal, Spain, and several other countries.

Meanwhile, the Company is on track to release a brand new mobile game of Eudemons Online (魔域) in the second half of 2016. In addition, the English version of Tiger Knight (虎豹骑) will also be released on Steam platform during the same period.

Education Business

Revenue from the education business of the Company was RMB279.9 million during the first quarter of 2016, an increase of 2,704.5% year-over-year and an increase of 33.4% quarter-over-quarter. On a pro-forma basis, Promethean recorded a 29.2% increase in revenue quarter-over-quarter (accounting for three months from October to December 2015) while achieved a significant 48.3% growth year-over-year. ClassFlow™, the Company's flagship cloud-based interactive K-12 (Kindergarten-to-Grade 12) software in the international markets, continued its growth in its user base with close to half a million registered users at the end of the first quarter of 2016, and the Company expects to grow in multiples from this foundational base during the year.

The first quarter marked a remarkable beginning of 2016 with the Company's international education business growing at a record pace with market share gains in major markets around the world by Promethean's education interactive flat panel, ActivPanel™. Based on the Company's estimates, ActivPanel™, which works together with ClassFlow™ to create an unrivalled learning and teaching experience, has become the number one product in the K-12 markets in the U.S., France, Italy and several other countries in terms of market share. The success in the market share penetration continues to pave the way for the built-out of the global learning community.

The Company has continued to make strong progress in its product development including expanding its capabilities of 101 Education PPT software, its flagship product in China that provides best-in-class lesson preparation and in-class lesson delivery functionalities combined with seamless access to its education resources library. This resource library features a broad range of high-quality education contents covering all major academic subjects in primary and secondary education in China. The Company is also on track in the development of its VR products including end-user applications such as the flagship VR editor which will come with a wide

range of “scenarios” and access to what the Company targets to be the largest 3D resource library for VR learning purpose. In the international markets, the Company has released ClassFlow™ 4.0 which comes with enhanced interface and functionalities. With ClassFlow™ 4.0, teachers can create assignments and assessments for students to complete independently, or collaboratively in small groups, both inside and outside of class. ClassFlow™ 4.0 also gives teachers insight into student learning and progress through polling and rich interactive formative assessments, which enables teachers to adjust any lesson instantly in the moment of learning and to personalize instruction. ClassFlow™ can be deployed on a range of one-to-one devices (operating on Android, iOS and Windows platforms) to facilitate the flow of data between the teacher and students during a lesson.

Excluding Promethean, revenue from the education business was RMB14.6 million for the period, an increase of 46.3% compared to RMB10.0 million in the same period of last year. The first quarter is traditionally the slowest quarter of the year in China due to the Chinese New Year holidays and constraints of China’s funding system, hence delaying schools’ buying decisions. The Company continues to expect 2016 to be a year of significant revenue ramp-up of its education business in China as it begins to commercialize its products more broadly. Furthermore, the Company has received positive feedback from its pilot tests of its 101 Education PPT software. Such feedback includes ease of use, short learning curve, capability to produce high quality lessons, significant time saved in lesson preparation, as well as enhancement of classroom interactivity and students’ engagement.

Leveraging on the peak seasons for the education industry in the second and third quarter of 2016, the Company expects its education business to record substantial growth for the upcoming periods both in China and internationally. The synergistic effect Promethean creates across international channels will also be eased in gradually. The Company will continue to invest heavily in the development of products, technologies and content in order to stay ahead of its competitors in the user experience and capabilities of its products. Meanwhile, the Company is on track in the integration effort of Promethean, including exploring synergies in all areas including products, technologies and market access, as well as enabling a cost structure that will provide the highest return on investment of the Company’s resources.

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

As at 31 March 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant

to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Beneficial owner, through a controlled corporation and beneficiary of a trust	254,053,257 (L)	51.54%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Liu Luyuan (Note 2)	The Company	Beneficial owner and beneficiary of certain trust	255,652,057 (L)	51.86%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	254,053,257 (L)	51.54%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB299,880,000 (L)	99.96%
Chen Hongzhan (Note 4)	The Company	Beneficial owner and beneficiary of certain trust	11,197,019 (L)	2.27%
Chao Guowei, Charles (Note 5)	The Company	Beneficial owner	818,000 (L)	0.17%

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
Lee Kwan Hung (Note 6)	The Company	Beneficial owner	1,036,519 (L)	0.21%
Liu Sai Keung, Thomas (Note 7)	The Company	Beneficial owner	935,019 (L)	0.19%

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 95.36% of the issued voting shares of DJM Holding Ltd., which in turn is interested in 38.76% of the issued voting shares of the Company. Liu Dejian is also interested in 0.42% of the issued voting shares of the Company which is represented by beneficial interest of 1,798,800 shares, a beneficiary of a trust of 197,019 shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.

Liu Luyuan is interested in 5.73% 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 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.76% and 3.86%, respectively, of the issued voting shares of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued voting shares of Eagle World International Inc., which in turn is interested in 2.82% of the issued voting shares of the Company. Zheng Hui is also interested in 0.30% of the issued shares of the Company which is represented by beneficial interest of 1,411,800 shares and the rest being underlying shares of 85,200 share options granted by the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.52% 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 and Liu Luyuan, 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. Chen Hongzhan is interested in 2.27% of the issued voting shares of the Company which is represented by personal interest of 71,000 shares, interest held as a beneficiary of certain trust holding in aggregate of 11,040,819 shares and the rest being underlying shares of interest of 85,200 share options granted by the Company.
5. 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 238,500 shares options granted by the Company.
6. Lee Kwan Hung is interested in 0.21% of the issued voting shares of the Company which is represented by beneficial interest of 718,519 shares and the rest being underlying shares of interest of 318,000 share options granted by the Company.
7. Liu Sai Keung, Thomas is interested in 0.19% of the issued voting shares of the Company which is represented by beneficial interest of 117,019 shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 March 2016, 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 March 2016, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100 (L)	38.76%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320 (L)	15.89%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320 (L)	15.89%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095 (L)	14.91%
First Elite Group Limited <i>(Note 3)</i>	The Company	Beneficial owner and through controlled corporation	26,502,415 (L)	5.38%
Jardine PTC Limited <i>(Note 3)</i>	The Company	Trustee	26,502,415 (L)	5.38%

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 2.21%, 10.55%, 2.15% and 0.98% 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 controlled by Jardine PTC Limited, which held on trust for Richmedia Holdings Limited.

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 March 2016.

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the “Main Board Share Option Scheme”) to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 31 March 2016 are as follows:

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options			As at
			1 January 2016	Granted	Exercised	Lapsed	31 March 2016
Executive Directors							
Liu Dejian	22.07.2011	4.60	85,200	—	—	—	85,200
Liu Luyuan	07.12.2009	4.33	1,400,000	—	—	—	1,400,000
	22.07.2011	4.60	284,000	—	—	—	284,000
Zheng Hui	22.07.2011	4.60	85,200	—	—	—	85,200
Chen Hongzhan	22.07.2011	4.60	85,200	—	—	—	85,200
Independent non-executive Directors							
Chao Guowei, Charles	04.12.2013	15.72	238,500	—	—	—	238,500
Lee Kwan Hung	04.12.2013	15.72	318,000	—	—	—	318,000

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at	Number of share options			As at
			1 January 2016	Granted	Exercised	Lapsed	31 March 2016
Liu Sai Keung, Thomas	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
Others							
Employees	28.04.2011	4.80	2,840,729	—	107,375	—	2,733,354
	22.07.2011	4.60	115,575	—	15,000	—	100,575
	23.04.2012	5.74	762,862	—	5,600	2,500	754,762
	06.07.2012	6.53	363,238	—	9,200	—	354,038
	12.09.2012	7.20	50,250	—	—	—	50,250
	16.01.2013	11.164	426,950	—	—	—	426,950
	25.04.2014	14.66	556,000	—	—	—	556,000
	11.05.2015	27.75	214,000	—	—	—	214,000
Total			<u>8,643,704</u>	<u>—</u>	<u>137,175</u>	<u>2,500</u>	<u>8,504,029</u>

Note:

1. During the period under review, no share options were exercised by Directors of the Company.

SHARE AWARD SCHEME

The Company

On 2 September 2008 (the “NetDragon Adoption Date”), the Board approved and adopted the share award scheme (the “NetDragon Share Award Scheme”) in which selected employees of the Group are entitled to participate. Unless early terminated by the Board, the NetDragon Share Award Scheme shall be valid and effective for a term of ten years commencing on the NetDragon Adoption Date. The Board shall not grant any award of shares which would result in the nominal value of shares which are the subject of awards granted by the Board under the NetDragon Share Award Scheme representing in aggregate over 10% of the issued capital of the Company from time to time.

Pursuant to the rules of the NetDragon Share Award Scheme, the Group has signed an agreement with Bank of Communications Trustee Limited (the “Trustee”), for the purpose of administering the NetDragon Share Award Scheme and holding the awarded shares before they are vested.

On 31 March 2016, 268,199 awarded shares granted to a number of selected participants were outstanding. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

Among 118,212 vested awarded shares as at 31 March 2016, a total of 118,212 awarded shares were vested by the Directors.

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

Best Assistant Education Online Limited (“Best Assistant”)

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

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

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

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

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

As at 31 March 2016, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into a subscription agreement (“Series A Agreement”) with IDG-Accel China Growth Fund-L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. (together referred to as “IDG Investors”), Vertex Asia Fund Pte. Ltd. (“Vertex”), Alpha Animation and Culture (Hong Kong) Company Limited (“Alpha”), Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon Websoft Inc. (“NetDragon BVI”), a direct wholly owned subsidiary of the Company (collectively referred to as

“Series A Investors”) for the allotment and issue of an aggregate of 180,914,513 Series A preferred Shares (“Series A Preferred Shares”) for a total consideration of US\$52,500,000 (equivalent to approximately HK\$409.5 million). The Series A Agreement and the issue and allotment of the Series A Preferred Shares were completed on 13 February 2015. The Series A Preferred Shares represented 100% of all issued preferred shares of Best Assistant and accounted for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares.

Assuming all of the Series A Preferred Shares are fully converted into ordinary shares of Best Assistant, the Company’s interest in ordinary shares of Best Assistant will be reduced from 86.15% to approximately 77.96%.

As at 31 March 2016, no Series A 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 period ended 31 March 2016.

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 unaudited consolidated financial statements for the period ended 31 March 2016 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 three months ended 31 March 2016, the Company bought back a total of 4,840,000 shares on the Stock Exchange at an aggregate consideration of HKD93,386,630 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 2016	<u>4,840,000</u>	<u>21.25</u>	<u>17.40</u>	<u>93,386,630</u>

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

Hong Kong, 23 June 2016

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.