

[For Immediate Release]

NetDragon Announces Third Quarter 2015 Financial Results

Games Business Maintains Steady Growth Momentum, Commercialization of Education Business Taken into Stride

[Hong Kong, December 17, 2015] NetDragon Websoft Inc. (“NetDragon” or “the Company”) (Hong Kong Stock Code: 777), an international leading developer and operator of online games and mobile internet platforms, today announced its financial results for the third quarter ended September 30, 2015. NetDragon's management team will hold a conference call and webcast at 8 p.m. Hong Kong Time on December 17, 2015 to discuss the results and recent business developments.

Third quarter 2015 Financial Highlights

- Revenue was RMB259.4 million, an increase of 11.5% year-over-year.
- Revenue from games was RMB238.0 million, an increase of 12.8% year-over-year.
- Gross profit was RMB215.4 million, an increase of 3.0% year-over-year.
- Non-GAAP operating loss¹ was RMB23.5 million.
- Basic loss per share was RMB5.34 cents.

Third quarter 2015 Operational Highlights²

- Peak Concurrent Users (“PCU”) for online games were approximately 761,000, an increase of 7.5% quarter-over-quarter.
- Average Concurrent Users (“ACU”) for online games were approximately 360,000, an increase of 13.2% quarter-over-quarter.

Mr. Dejian Liu, Chairman and Executive Director of NetDragon, commented: “I am pleased to report solid growth of our top line in the third quarter of 2015, as revenue increased 11.5% year-over-year to RMB259.4 million. While we recorded a loss due to our sizable investments in our education business, we are confident that this strategic initiative will prove to be highly valuable to our shareholders in the long term.”

“We have made substantial progress in the development of our online education ecosystem and are on track to bring it to market in mass scale in 2016. Our online education ecosystem solution creates a very unique user experience and value proposition through the combination of advanced technology and superior content. We began its commercialization in China and have won several large sales contracts. We also recently completed the acquisition of Promethean World Plc (“Promethean”), a global interactive learning technology company with a large user base and global brand. This acquisition will further enhance NetDragon's competitiveness, accelerate the development of our

Notes :

¹ See “Non-GAAP Financial Measures” section for more details on the reasons for presenting these measures.

² The PCU and ACU data has included the new micro-client game Calibur of Spirit since the fourth quarter of 2014.

education business and mark the beginning of our global expansion."

"Meanwhile, our gaming business maintained its steady growth momentum with improving operating data as we continued to optimize our game portfolio by adding new types of gameplay and exciting new content for our flagship games."

Third quarter 2015 Unaudited Financial Results

Revenue

Revenue was RMB259.4 million, an increase of 11.5% from RMB232.7 million during the same quarter last year.

Revenue from China was RMB213.4 million, an increase of 9.0% from RMB195.9 million in the same quarter last year. .

Revenue generated from other geographical markets was RMB46.0 million, an increase of 24.8% from RMB36.8 million in the same quarter last year.

Gross profit and gross margin

Gross profit was RMB215.4 million, an increase of 3.0% from RMB209.2 million in the same quarter last year. Gross margin was 83.0%, compared with 89.9% in the same quarter last year. The decrease of gross margin was predominantly due to (i) increased revenue contribution from Cherrypicks and its enterprise mobile application development business which typically has lower gross margins when compared with the Company's gaming business; and (ii) increased server and broadband rental fees associated with the e-sports game promotional event organized for Calibur of Spirit in China.

Operating expenses

Selling and marketing expenses were RMB42.7 million, representing an increase of 8.5% from the previous quarter and an increase of 10.6% from the same period last year. The sequential increase was mainly due to increased staff costs associated with the online education business as well as increased promotional expenses for Calibur of Spirit.

Administrative expenses were RMB133.5 million, representing an increase of 13.0% from the previous quarter and an increase of 72.2% from the same period last year. The sequential increase was mainly due to (i) increased staff costs; and (ii) RMB15.9 million in legal and professional fees related to the acquisition of Promethean World.

Development costs were RMB107.5 million, representing an increase of 11.8% from the previous quarter and an increase of 59.6% from the same period last year. The increase in development costs was mainly due to the continuous expansion of the online education business' research and development team.

Operating loss

Operating loss was RMB30.8 million, compared to operating loss of RMB5.5 million during the previous quarter.

Liquidity

As of September 30, 2015, NetDragon had bank deposits, bank balances and cash, pledged bank deposits and held-for-trading liquid investments of approximately RMB2, 390.5 million.

Business Developments

Games Business

The Company's flagship MOBA micro-client based game Calibur of Spirit, continued to see its operational metrics increase, including hitting a record high of 1.65 million daily active users in October 2015. The increase was a direct result of a series of in-game updates that continue to improve game play and user engagement as well as several online and offline promotional events held during the quarter. The Company is in the final stage of development for the mobile version for Calibur of Spirit and expects to begin testing in the first quarter of 2016. Given the huge success the Calibur of Spirit brand has generated through PC, the Company is confident in the mobile version's future revenue generation capabilities and its attractiveness to its core user base. Calibur of Spirit is also extending its presence outside of China with the recent signing of publishing contracts in several South East Asian nations.

The Company continued to launch in-game updates for its flagship game Conquer Online during the quarter. With a new class update, The Rhapsody of Ice and Fire: Taoist Ascending was launched for Conquer Online's overseas versions during the second quarter of 2015 generating record high monthly revenue in July 2015. An overseas version of a new expansion pack was launched in October 2015 and will be followed by a new class update scheduled for launch in early 2016. A new expansion pack for the Chinese version of Conquer Online was released in August 2015 which was followed by the release of Awakening of The Monk, a new class update released in November 2015. The Company further expanded content on offer for another flagship game Eudemons Online with the launch of a new expansion pack in October 2015. Eudemons Online will celebrate its 10-year anniversary in early 2016 with a large celebratory game update. The first expansion pack containing new gameplay for Eudemons Online Pocket Version was also launched in August 2015.

Tiger Knight, NetDragon's new 3D action strategy game, is currently undergoing testing which began in August 2015. An English version is currently being localized and is expected to begin testing on the Steam platform during the first quarter of 2016. The Company expects to commence revenue generation from Tiger Knight in the first half of 2016.

Online and Mobile Education

(1) Products

NetDragon's research and development team continued to push ahead and is on track to complete the development of the first commercial version of its total-solution education ecosystem platform in China by the first quarter of 2016. The ecosystem will provide schools, teachers and students a best-in-class experience as they will be able to work across the Company's various software platforms within the ecosystem that are designed to work seamlessly with each other. Furthermore, integration of the Company's software platforms to its proprietary 101 Student Tablet will enhance the user experience to another level.

The first commercial version of NetDragon's platform in China will include various software platforms such as pre-class lesson preparation, in-class collaborative lessons, after-school homework system, as well as a customizable instant messaging platform that is designed specifically for education communities.

On the content front, the Company's content development team continues to make progress in creating China's best online education content repository in terms of quality, volume and breadth of subjects. Content includes teaching and learning modules and question banks that are designed to be consistent with the curriculum of major education-focused publishers in China and allows teachers and students to follow the curriculum adopted by their schools within the platform. The Company differentiates itself in the market with the volume and breadth of content on offer as well as its world-class content production capabilities built from its extensive experience in game development. In particular, the Company expects to leverage its know-how in 3D and Virtual Reality (VR) to create a next-generation educational experience.

(2) Merger and Acquisitions

During the period, the Company actively sought out acquisition opportunities in the field of education and learning in order to build technological barriers, enhance investment in human resources and accelerate the global rollout of its products.

In August 2015, the Company completed the acquisition of a 100% stake in ChiVox Co., Ltd ("ChiVox"). With this acquisition, NetDragon will integrate ChiVox's world-class intelligent voice and speech technology into its learning platform.

In November 2015, the Company completed its acquisition of a 100% stake in Promethean World Plc ("Promethean"), a London-listed world leader in the rapidly growing global interactive learning technology market, for a total cash consideration of Great British Pound 84.8 million (equivalent to approximately RMB799 million). Promethean's products include interactive whiteboards, interactive flat panels, smart interactive desks, educational software for interactive classrooms and lesson preparation, and Promethean Planet which is one of the world's largest online community for teachers in terms of number of registered teachers. Promethean will provide NetDragon with a strong brand in education, global sales and marketing channels and business potential to create technology synergies and market access opportunities which will enhance the Company's competitiveness and accelerate the global rollout of its products.

(3) Go to Market

The Group has commenced its go-to-market roll-out in China with a pilot launch during the quarter and has won several successful tenders in multiple provinces. These sales contracts include a combination of software and hardware and involve a delivery and customer-validation cycle of a few months. Revenue from these contracts is expected to be recognized in the first half of 2016. These sales contracts are expected to cover over 1,800 classrooms in 150 schools across 10 provinces (or direct-controlled municipalities). As the Company transitions from the current pilot launch to a full commercial launch in the first half of 2016, revenue from its education business is expected to ramp up significantly in 2016 from its current level.

Internationally, the acquisition of Promethean has enabled the Group to gain access to 1.3 million classrooms in over 100 countries with two million teachers and over 30 million students. Promethean’s sales revenue will be consolidated into the Group’s financials starting in the fourth quarter of 2015.

Non-GAAP Financial Measures

To supplement the consolidated results prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), the use of certain non-GAAP measures is provided solely to enhance the overall understanding of current financial performance. These non-GAAP measures are not expressly permitted measures under HKFRSs and may not be comparable to similarly titled measures for other companies. The non-GAAP financial measures exclude share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, interest income on pledged bank deposit, exchange on loss pledged bank deposit, secured bank borrowing and convertible preferred shares, net gain on derivative financial instrument, net loss on disposal of held-for-trading investment, net loss on held-for-trading investments and finance costs.

Management Conference Call

NetDragon will host a management conference call and webcast to review its 2015 third quarter results on Thursday, December 17, 2015, at 8 p.m. Hong Kong time. Management attending the conference call includes Simon Leung, Vice Chairman and Executive Director, CEO of Huayu Education; Ben Yam, CFO; and Maggie Zhou, Senior Director of Investor Relations.

Details of the live conference call are as follows:

International Toll	65-6713-5090
US Toll Free	1-866-519-4004
Hong Kong Toll Free	800-906-601
China Toll Free (for fixed line users)	800-819-0121
China Toll Free (for mobile users)	400-620-8038
Passcode	NetDragon

A live and archived webcast of the conference call will be available on the Investor Relations section of NetDragon’s website at <http://www.netdragon.com/investor/ir-webcasts.shtml>. Participants in the live webcast should visit the aforementioned website 10 minutes prior to the call, then click on the icon for “2015 Third Quarter Results Conference Call” and follow the registration instructions.

About NetDragon Websoft Inc

NetDragon Websoft Inc. (HKSE: 0777) is a leading innovator and creative force in the global mobile Internet industry. Established in 1999, NetDragon is a vertically integrated, cutting-edge R&D powerhouse with a highly successful track record which includes the development of flagship MMORPGs such as Eudemons Online and Conquer Online, China’s number one online gaming portal, 17173.com, and China's most influential smartphone app store platform, 91 Wireless, which was sold to Baidu in 2013 in what was at the time the largest Internet M&A transaction in China. Being China's pioneer in overseas expansion, NetDragon also directly operates a number of game titles in over 10 languages internationally since 2003. In recent years, NetDragon has emerged as a major player

in the global online and mobile learning space as it works to leverage its mobile Internet technologies and operational know-how to develop a game-changing learning ecosystem. For more information, please visit www.netdragon.com.

For investor enquiries, please contact:

NetDragon Websoft Inc.

Ms. Maggie Zhou

Senior Director of Investor Relations

Tel.: +852 2850 7266/ +86 591 8754 3120

Email: maggie@nd.com.cn; ndir@nd.com.cn

Website: www.nd.com.cn/ir

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015**

	Three Months Ended		
	September 30, 2015	June 30, 2015	September 30, 2014
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Revenue	259,412	266,009	232,702
Cost of revenue	<u>(44,031)</u>	<u>(42,948)</u>	<u>(23,530)</u>
Gross profit	215,381	223,061	209,172
Other income and gains	43,951	29,989	36,034
Selling and marketing expenses	(42,663)	(39,307)	(38,569)
Administrative expenses	(133,516)	(118,172)	(77,538)
Development costs	(107,472)	(96,142)	(67,341)
Other expenses	(3,270)	(3,186)	(3,666)
Share of losses of associates	<u>(3,177)</u>	<u>(1,767)</u>	<u>(406)</u>
Operating (loss) profit	(30,766)	(5,524)	57,686
Interest income on pledged bank deposit	1,657	1,600	638
Exchange (loss) gain on pledged bank deposit, secured bank borrowing and convertible preferred shares	(10,527)	646	1,188
Net (loss) gain on derivative financial instrument	13,408	—	(646)
Net loss on disposal of held-for-trading investment	(525)	—	—
Net loss on held-for-trading investments	(2,334)	(991)	(1,553)
Finance costs	<u>(851)</u>	<u>(823)</u>	<u>(728)</u>
(Loss) profit before taxation	(29,938)	(5,092)	56,585
Taxation	<u>(8,072)</u>	<u>(7,501)</u>	<u>(4,166)</u>
(Loss) profit for the period	(38,010)	(12,593)	52,419
Other comprehensive income (expense) for the period, net of income tax:			
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss	3,796	(428)	(161)
Total comprehensive (expense) income for the period	<u>(34,214)</u>	<u>(13,021)</u>	<u>52,258</u>

(Loss) profit for the period attributable to:			
-Owners of the Company	(26,530)	(7,460)	52,595
-Non-controlling interests	(11,480)	(5,133)	(176)
	<u>(38,010)</u>	<u>(12,593)</u>	<u>52,419</u>
Total comprehensive (expense) income			
attributable to:			
-Owners of the Company	(22,734)	(7,888)	52,434
-Non-controlling interests	(11,480)	(5,133)	(176)
	<u>(34,214)</u>	<u>(13,021)</u>	<u>52,258</u>
(Loss) earnings per share			
	RMB cents	RMB cents	RMB cents
-Basic	(5.34)	(1.51)	10.31
-Diluted	N/A	N/A	10.27

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 September 2015

	30 September 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Non-current assets		
Property, plant and equipment	1,134,534	822,704
Prepaid lease payments	439,331	378,673
Intangible assets	198,294	141,254
Interests in associates	20,306	28,795
Available-for-sale investments	5,000	5,000
Loan receivables	21,045	18,327
Deposit paid for acquisition of subsidiaries	777,671	—
Deposits made for acquisition of property, plant and equipment	15,372	35,967
Goodwill	71,110	40,013
Deferred tax assets	54	54
	<u>2,682,717</u>	<u>1,470,787</u>
Current assets		
Prepaid lease payments	2,732	2,708
Loan receivables	2,627	1,578
Trade receivables	71,360	51,072
Amounts due from customers for contract work	5,458	7,252
Other receivables, prepayments and deposits	101,667	210,098
Amount due from a related company	1,704	1,704
Amounts due from associates	10,982	367
Held-for-trading investments	166,718	211,584
Pledged bank deposit	246,182	236,805
Bank deposits	779,236	1,999,644
Bank balances and cash	1,198,314	1,036,788
	<u>2,586,980</u>	<u>3,759,600</u>
Current liabilities		
Trade and other payables	220,697	209,214
Amounts due to customers for contract work	1,343	424
Deferred income	23,928	25,595
Amount due to a related company	2,329	1,891
Amounts due to associates	5,008	8
Convertible preferred shares	256,947	—
Secured bank borrowing	246,182	236,805
Income tax payable	102,342	137,648
	<u>858,776</u>	<u>611,585</u>

Net current assets	1,728,204	3,148,015
Total assets less current liabilities	4,410,921	4,618,802
Non-current liabilities		
Other payables	6,981	1,283
Deferred tax liabilities	7,979	116
	14,960	1,399
Net assets	4,395,961	4,617,403
Capital and reserves		
Share capital	36,725	36,943
Share premium and reserves	4,323,315	4,529,971
Equity attributable to owners of the Company	4,360,040	4,566,914
Non-controlling interests	35,921	50,489
	4,935,961	4,617,403