

[For Immediate Release]

## NetDragon Announces Fourth Quarter and Fiscal Year 2015 Financial Results

*Robust growth momentum in Games Business fueled by break-out Q4 performance from Calibur of Spirit,  
Expansion of Education Business accelerates with extension into Virtual Reality and acquisition of Promethean*

[Hong Kong, March 30, 2016] NetDragon Websoft Inc. (“NetDragon” or “the Company”) (Hong Kong Stock Code: 777), a global leader in building Internet communities, today announced its financial results for the fourth quarter and fiscal year ended December 31, 2015. NetDragon's management team will hold a conference call and webcast at 8 p.m. Hong Kong Time on March 30, 2016 to discuss the results and recent business developments.

### Fiscal Year 2015 Financial Highlights

- Revenue was RMB1,272.2 million, an increase of 32.1% year-over-year.
- Revenue from the games business was RMB985.4 million, an increase of 11.5% year-over-year.
- Revenue from the education business was RMB242.8 million, an increase of 639.4% year-over-year.
- Gross profit was RMB958.0 million, an increase of 11.4% year over year.
- Segmental profits from the games business was RMB357.0 million, an increase of 17.7% year-over-year.
- Non-GAAP operating loss<sup>1</sup> was RMB 22.5 million.
- Adjusted Non-GAAP operating profits<sup>1</sup>, which excludes one-off tax charges and professional fees related to the Promethean acquisition, was RMB0.6 million.
- Net cash, cash equivalent and liquid investments as of 31 December 2015 was RMB1,880.7 million.
- Non-GAAP loss per share<sup>1</sup> was RMB 24.86 cents.
- The Board of Directors has proposed a final dividend of HK\$0.10 per share subject to approval by shareholders at the coming Annual General Meeting.

### Fourth Quarter 2015 Financial Highlights

- Revenue was RMB500.6 million, an increase of 93.0% quarter-over-quarter and 77.0% year-over-year.
- Revenue from the games business was RMB 283.2 million, an increase of 18.5% quarter-over-quarter and 18.6% year-over-year.
- Revenue from the education business was RMB 209.8 million, a significant increase on a quarter-over-quarter and year-over-year basis due to the acquisition of Promethean whose financials were consolidated beginning in November 2015.
- Gross profit was RMB312.4 million, an increase of 45.0% quarter-over-quarter and 26.7% year-over-year.
- Segmental profits from the games business was RMB187.3 million, an increase of 333.9% year-over-year.
- Non-GAAP operating loss was RMB 8.2 million.
- Adjusted Non-GAAP operating profits, which excludes one-off tax charges and professional fees related to the Promethean acquisition, was RMB1.2 million
- Non-GAAP loss per share was RMB 17.92 cents.

### Fourth Quarter 2015 Gaming Operational Metrics

- Peak Concurrent Users (“PCU”) for online games were approximately 752,000, an increase of 17.1% year-over-year.

Notes<sup>1</sup> : See “Non-GAAP Financial Measures” section for more details on the reasons for presenting these measures.

- Average Concurrent Users (“ACU”) for online games were approximately 317,000, an increase of 5.3% year-over-year.
- Average revenue per user (“ARPU”) for online games were approximately RMB271, an increase of 10.2% year-over-year.

Mr. Dejian Liu, Chairman and Executive Director of NetDragon, commented: “I am pleased to report solid topline growth for the year with revenue increasing 32.1% year-over-year to RMB1.27 billion. 2015 was a great year with our games business generating robust growth and online education sales in China gaining traction following the launch of an initial large-scale pilot sales program which began last quarter. Completing the acquisition of Promethean in November 2015 also marked the beginning of our global expansion in the education space.”

“In 2015, we continued to invest heavily in the design and development of our online education products, and have made remarkable progress in building an integrated ecosystem which we believe will be a game changer. We have also extended our education product portfolio into Virtual Reality (VR). Our VR product will include a state-of-the-art editor tool for teachers and students to create VR lessons and presentations with and a library of best-in-class educational VR content in terms of quality and breadth of coverage. Most importantly, our knowhow and technologies accumulated from our gaming games business, as well as our resources and focus in education, will enable us to develop our VR education product better and faster than our competitors.”

“We are also seeing extremely positive progress from the launch of our initial pilot sales program. The sales tenders we’ve won as of end of 2015 will cover over 5,000 classrooms in 400 schools across 14 provinces (or directly-controlled municipalities). In addition, we expect our VR product to hit the market during the second half of this year which will serve as a catalyst for the growth of education sales in 2016. Last but not least, the completion of our acquisition of Promethean has allowed us to accelerate our global strategy by providing us with an existing user base covering 1.3 million classrooms in over 150 countries and over 2 million teachers and 30 million students.”

“Our games business had a successful year as our new game Calibur of Spirit continued its very strong momentum in Q4, and this game is poised to become a major revenue and profits growth driver for our games business. Our overseas games also recorded strong growth during the year, increasing over 20% from last year. Looking forward, we anticipate a very exciting year in which we plan to launch new mobile game versions for Calibur of Spirit and Eudemons Online, and leverage our technology and expertise to diversify into MOBA community platforms.”

## Segmental Financial Highlights<sup>2</sup>

### 2015 Full Year

RMB'000	FY2015		FY2014		Variance	
	Online games	Education	Online games	Education	Online games	Education
Revenue	985,427	242,801	883,483	32,838	11.5%	639.4%
Gross profit	899,758	58,933	815,459	3,400	10.3%	1,633.3%
Segmental profit (loss)	357,046	(274,100)	303,338	(40,370)	17.7%	579.0%
Key operating expenses:						
-Research and development	(293,663)	(148,447)	(236,084)	(13,176)	24.4%	1,026.6%
-Selling and marketing	(135,034)	(71,597)	(143,024)	(9,339)	-5.6%	666.6%

#### Fourth Quarter 2015

RMB'000	FY2015Q4		FY2014Q4		Variance	
	Online games	Education	Online games	Education	Online games	Education
Revenue	283,245	209,826	238,854	9,458	18.6%	2,118.5%
Gross profit	264,162	49,474	215,653	211	22.5%	23,347.4%
Segmental profit (loss)	187,344	(159,947)	43,177	(25,000)	333.9%	539.8%
Key operating expenses:						
-Research and development	(76,341)	(74,266)	(80,805)	(8,473)	-5.5%	776.5%
-Selling and marketing	(36,072)	(57,776)	(46,201)	(4,926)	-21.9%	1,072.9%

Notes<sup>2</sup> : The revenue for the year ended 31 December 2015 was contributed from online games, education and mobile technology and mobile marketing business. The contribution from the mobile technology and mobile marketing business is not listed above as the amount is not meaningful.

## Business Review

### Games Business

During fiscal year 2015, revenue from the games business increased 11.5% to RMB985.4 million. During the fourth quarter of 2015, revenue from the games business increased 18.5% sequentially and 18.6% year-over-year to RMB283.2 million. The increases were primarily attributable to significant revenue generation from the Company's new MOBA game Calibur of Spirit, and healthy growth from Eudemons Online and its pocket version.

During the fourth quarter of 2015, the Company continued to enhance game-play and optimize the monetization of Calibur of Spirit resulting in monthly gross revenue reaching a record high of RMB 31.6 million in December 2015. Given the strong growth momentum, the Company expects to see Calibur of Spirit generate sustained revenue growth in 2016. The Company will leverage the success of Calibur of Spirit to promote professional e-sports events which will accelerate player acquisition and create a vibrant community for MOBA players. The Company is developing a mobile version of Calibur of Spirit which will begin open beta testing in 2016 and is confident of its potential success given the game's existing large online player base.

Eudemons Online closed out a solid year with a successful fourth quarter that saw its PC and mobile game titles generate a combined revenue increase of 25.8% sequentially. The increase in revenue was driven by the release of a new PC expansion pack in October 2015 and healthy growth from its mobile game which recorded its third consecutive month of revenue growth during the fourth quarter of 2015. The Company will continue to launch content updates and leverage the popularity of its brand to launch new mobile game titles for Eudemons Online in 2016.

The Company's other flagship game, Conquer Online, also experienced a fruitful year in which the continuous improvement in game features and monetization strategy helped drive monthly revenue from its overseas version to a record high in July 2015.

Tiger Knight, the Company's 3D action strategy game, is currently undergoing testing which began in August 2015. A Player Versus Environment (PVE) game update was released in the fourth quarter of 2015 to great acclaim from players. This game was recognized as one of the "Top 10 Most Anticipated Client Games" in Tencent's "2015 Chinese Game Ranking".

Going forward, the Company will continue to launch new games and use existing IP to develop spinoff franchises as part of its premier-quality games strategy.

### ***Online Education Business***

Fiscal year 2015 was a year of remarkable progress on all fronts for the Company's online education business. The Company finished developing a pilot version of its online education ecosystem which includes software components covering pre-class lesson preparation, in-class collaborative lessons, an after-school homework system, as well as a customizable instant messaging platform that is designed specifically for education communities. These software components can be seamlessly integrated into the Company's proprietary Android-based 101 Student Tablet to provide a best-in-class user experience as well as teaching and learning efficacies for teachers and students. During the fourth quarter of 2015, the Company began developing its educational VR product portfolio which will form an integral part of its education ecosystem and will feature a VR editor platform that will empower teachers and students by allowing them to create highly personalized VR presentations in a do-it-yourself fashion. The Company will also leverage its world class gaming content production experience to produce a state-of-the-art educational VR content library which will provide a learning experience that is both immersive and engaging across a broad array of subject areas. In addition to VR content, the Company is on track to build the largest interactive and 3D learning content library in China that will cover all major subject areas across the standard primary and secondary school curriculum with a breakdown into granular knowledge points. The content library will feature teaching and learning modules, question banks and interactive lessons, which are designed to enable the creation of next-generation lesson plans designed to maximize both engagement and effectiveness of an individual students' learning.

During the quarter, the Company completed the acquisition of a 100% stake in Promethean World for a total cash consideration of approximately US\$130 million. Starting in November 2015, Promethean's results will be consolidated into the Company's financials. Promethean provides NetDragon with a well-known international brand in education, access to global sales and marketing partnership channels and opportunities to create technological and operational synergies which will accelerate the global rollout of its products. The Company is pursuing several integration initiatives which are expected to result in significant revenue growth in 2016 and multi-fold increase in the user base of its award winning ClassFlow™ educational software.

The Company began the go-to-market roll-out of its education products in China during the third quarter of 2015 with a highly successful pilot launch. As of the end of 2015, sales contracts secured already cover over 5,000 classrooms in 400 schools across 14 provinces (or direct-controlled municipalities). As the Company transitions from the current pilot launch to a full commercial launch in 2016, revenue from its China education business is expected to increase by several multiples from its 2015 level.

### **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, loss on deemed disposal of associates, amortization of intangible assets arising on acquisition of subsidiaries, interest income on pledged bank deposits, exchange loss on pledged bank deposits, secured bank borrowings and convertible preferred shares, net gain (loss) on derivative financial instruments, net gain (loss) on disposal of held-for-trading investments, net gain (loss) on held-for-trading investments and finance costs.

## Management Conference Call

NetDragon will host a management conference call and webcast to review its fourth Quarter and fiscal year 2015 results on Wednesday, March 30, 2016, 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	<b>65-6713-5090</b>
US Toll Free	<b>1-866-519-4004</b>
Hong Kong Toll Free	<b>800-906-601</b>
China Toll Free (for fixed line users)	<b>800-819-0121</b>
China Toll Free (for mobile users)	<b>400-620-8038</b>
Passcode	<b>NetDragon</b>

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 "4Q and Fiscal Year 2015 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](http://www.netdragon.com).

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2015**

	<b>4Q 2015</b>	3Q 2015	<b>2015</b>	2014
	<b>(Unaudited)</b>	(Unaudited)	<b>(Audited)</b>	(Audited)
	<b>RMB '000</b>	RMB '000	<b>RMB '000</b>	<b>RMB'000</b>
<b>Revenue</b>	<b>500,560</b>	259,412	<b>1,272,197</b>	962,817
Cost of revenue	<u>(188,159)</u>	<u>(44,031)</u>	<u>(314,161)</u>	<u>(102,844)</u>
<b>Gross profit</b>	<b>312,401</b>	215,381	<b>958,036</b>	859,973
Other income and gains	<b>87,443</b>	43,951	<b>187,927</b>	157,101
Selling and marketing expenses	<b>(93,982)</b>	(42,663)	<b>(206,778)</b>	(152,495)
Administrative expenses	<b>(161,490)</b>	(133,516)	<b>(520,104)</b>	(326,934)
Development costs	<b>(154,726)</b>	(107,472)	<b>(446,229)</b>	(249,260)
Other expenses	<b>(12,080)</b>	(3,270)	<b>(24,092)</b>	(34,027)
Share of losses of associates	<u>(1,423)</u>	<u>(3,177)</u>	<u>(9,912)</u>	<u>(2,354)</u>
<b>Operating (loss) profit</b>	<b>(23,857)</b>	(30,766)	<b>(61,152)</b>	252,004
Interest income on pledged bank deposits	<b>1,171</b>	1,657	<b>6,018</b>	2,794
Exchange loss on pledged bank deposits, secured bank borrowings and convertible preferred shares	<b>(5,623)</b>	(10,527)	<b>(15,504)</b>	(5,081)
Net (loss) gain on derivative financial instruments	<b>(16,322)</b>	13,408	<b>(2,914)</b>	6,817
(Loss) gain of disposal of held-for-trading investments	-	(525)	<b>876</b>	-
Net gain (loss) on held-for-trading investments	<b>3,922</b>	(2,334)	<b>(9,144)</b>	(17,304)
Finance costs	<u>(2,940)</u>	<u>(851)</u>	<u>(5,431)</u>	<u>(3,212)</u>
<b>(Loss) profit before taxation</b>	<b>(43,649)</b>	(29,938)	<b>(87,251)</b>	236,018
Taxation	<u>(80,609)</u>	<u>(8,072)</u>	<u>(100,675)</u>	<u>(64,197)</u>
(Loss) profit for the period/year	<b>(124,258)</b>	(38,010)	<b>(187,926)</b>	171,821
Other comprehensive income (expense) for the period/year, net of income tax:				
Gain on revaluation of properties that will not be reclassified subsequently to profit or loss	<b>21,776</b>	—	<b>21,776</b>	—
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss	<u>8,541</u>	<u>3,796</u>	<u>12,208</u>	<u>(40)</u>
Total comprehensive (expense) income for the period/year	<u><b>(93,941)</b></u>	<u>(34,214)</u>	<u><b>(153,942)</b></u>	<u>171,781</u>

(Loss) profit for the period/year attributable to:

-Owners of the Company	<b>(98,075)</b>	(26,530)	<b>(142,979)</b>	176,681
-Non-controlling interests	<b>(26,183)</b>	(11,480)	<b>(44,947)</b>	(4,860)
	<u><b>(124,258)</b></u>	<u>(38,010)</u>	<u><b>(187,926)</b></u>	<u>171,821</u>

Total comprehensive (expense) income attributable to:

- Owners of the Company	(68,635)	(22,734)	<b>(109,872)</b>	176,641
- Non-controlling interests	(25,306)	(11,480)	<b>(44,070)</b>	(4,860)
	<u>(93,941)</u>	<u>(34,214)</u>	<u><b>(153,942)</b></u>	<u>171,781</u>

	<b>RMB cents</b>	RMB cents	<b>RMB cents</b>	RMB cents
<b>(Loss) earnings per share</b>				
- Basic	<b>(19.74)</b>	(5.34)	<b>(28.85)</b>	34.77
- Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>34.22</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 December 2015**

	2015	2014
	RMB'000	RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	1,246,117	822,704
Prepaid lease payments	438,677	378,673
Investment properties	55,377	—
Intangible assets	953,950	141,254
Interests in associates	18,883	28,795
Available-for-sale investments	5,000	5,000
Loan receivables	23,081	18,327
Trade receivables	18,112	—
Deposits made for acquisition of property, plant and equipment	18,302	35,967
Goodwill	334,839	40,013
Deferred tax assets	3,611	54
	<u>3,115,949</u>	<u>1,470,787</u>
<b>Current assets</b>		
Inventories	117,584	—
Prepaid lease payments	2,733	2,708
Loan receivables	3,397	1,578
Trade receivables	234,733	51,072
Amounts due from customers for contract work	4,339	7,252
Other receivables, prepayments and deposits	115,918	210,098
Amounts due from related companies	1,704	1,704
Amounts due from associates	11,204	367
Tax recoverable	11,159	—
Held-for-trading investments	170,640	211,584
Pledged bank deposit	—	236,805
Bank deposits	583,091	1,999,644
Bank balances and cash	1,126,957	1,036,788
	<u>2,383,459</u>	<u>3,759,600</u>
Assets classified as held for sale	2,690	—
	<u>2,386,149</u>	<u>3,759,600</u>

**Current liabilities**

Trade and other payables	507,592	209,214
Amounts due to customers for contract work	993	424
Provisions	29,373	—
Deferred income	85,039	25,595
Amount due to a related company	2,254	1,891
Amounts due to associates	9,632	8
Convertible preferred shares	278,499	—
Secured bank borrowings	25,142	236,805
Income tax payable	95,194	137,648
	<u>1,033,718</u>	<u>611,585</u>

**Net current assets** 1,352,431 3,148,015

**Total assets less current liabilities** 4,468,380 4,618,802

**Non-current liabilities**

Other payables	12,723	1,283
Provisions	2,027	—
Deferred tax liabilities	149,993	116
	<u>164,743</u>	<u>1,399</u>

**Net assets** 4,303,637 4,617,403

**Capital and reserves**

Share capital	36,726	36,943
Share premium and reserves	4,257,120	4,529,971

Equity attributable to owners of the Company 4,293,846 4,566,914

Non-controlling interests 9,791 50,489

4,303,637 4,617,403