

NetDragon Announces 2016 Second Quarter and Interim Financial Results

Record High Revenue Achieved in Q2 Fuelled by Dual Growth Engines in Games and Education Business

(Hong Kong, August 31, 2016) NetDragon Websoft Holdings Limited (“NetDragon” or the “Company”; Hong Kong Stock Code: 777), a global leader in building internet communities, today announced its financial results for the second quarter and the first half of 2016 ended June 30, 2016. NetDragon’s management team will hold a conference call and webcast at 6 p.m. Hong Kong time on August 31 to discuss the results and recent business developments.

2016 Second Quarter Financial Highlights

- Revenue was RMB786.9 million: 37.7% increase quarter-over-quarter; and 195.8% increase year-over-year.
- Revenue from the games business was RMB296.7 million: 4.4% increase quarter-over-quarter; and 24.2% increase year-over-year.
- Revenue from the education business was RMB480.1 million: 71.5% increase quarter-over-quarter; and over 34 times increase year-over-year.
- Gross profit was RMB437.4 million: 26.3% increase quarter-over-quarter; 96.1% increase year-over-year.
- Core segmental profit¹ from the games business was RMB99.4 million: 5.3% increase quarter-over-quarter; and 55.8% increase year-over-year.
- Core segmental loss¹ from the education business was RMB87.7 million: 34.3% decrease quarter-over-quarter; and 122.7% increase year-over-year.
- Non-GAAP² operating profit was RMB28.1 million as compared to non-GAAP operating loss of RMB111.8 million for the first quarter. Such turnaround was mainly attributable to a combination of very strong performance of our international online education business as reflected in Promethean’s positive operating profit during the quarter, as well as continuous profitability growth in the games business.
- Net profit attributable to owners of the Company was RMB70.7 million as compared to net loss attributable to owners of the Company of RMB113.6 million in the first quarter.

2016 First Half Financial Highlights

- Revenue was RMB1,358.5 million: 165.2% increase year-over-year.
- Revenue from the games business was RMB580.8 million: 25.4% increase year-over-year.
- Revenue from the education business was RMB760.0 million: 3,141.3% increase year-over-year.
- Gross profit was RMB783.9 million: 82.2% increase year-over-year.
- Core segmental profit¹ from the games business was RMB193.7 million: 82.5% increase year-over-year.
- Core segmental loss¹ from the education business was RMB221.1million: 287.6% increase year-over-year.
- The company declared an interim dividend of HK\$ 0.10 per share for the six months ended 30 June 2016.

Note 1: Core segmental profit/loss figures are derived from the Company’s reported segmental profit/loss figures (presented in accordance with Hong Kong Financial Reporting Standards) but exclude non-core/operating, non-recurring or unallocated items including government grants, fair value change and finance cost of financial instruments and fair value change of derivative financial instrument and net change on held-for-trading investments. In order to conform to the current period’s presentation, certain comparative figures for prior reporting period have been reclassified.

Note 2: To supplement the consolidated results of the Company prepared in accordance with HKFRSs, the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Company’s 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 of the Company exclude share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, and fair value change of remeasurement of previously held equity interest in an associate upon acquisition.

2016 Second Quarter Gaming Operational Metrics

- Average Concurrent Users (“ACU”) for online games was approximately 347,000, a 4.5% increase quarter-over-quarter and 9.1% increase year-over-year
- Peak Concurrent Users (“PCU”) for online games was approximately 776,000, a 3.7% increase quarter-over-quarter and 9.6% increase year-over-year
- Monthly average revenue per user (“ARPU”) for online games was approximately RMB246, a 3.5% decrease quarter-over-quarter and relatively flat year-over-year

Segmental Financial Highlights

(RMB '000)	FY2016Q2		FY2016Q1		FY2015Q2	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	296,697	480,107	284,067	279,942	238,891	13,467
Gross Profit	279,736	155,803	264,857	82,936	216,262	5,642
Gross Margin	94.3%	32.5%	93.2%	29.6%	90.5%	41.9%
Core Segmental Profit (Loss) ¹	99,356	(87,695)	94,314	(133,443)	63,755	(39,372)
Segmental Operating Expenses ³						
- Research and development	(82,060)	(91,390)	(77,344)	(87,848)	(71,509)	(24,550)
- Selling and marketing	(37,372)	(95,323)	(33,520)	(87,837)	(35,000)	(3,817)
- Administrative	(66,586)	(39,090)	(60,464)	(38,952)	(49,786)	(14,010)

Mr. Dejian Liu, Chairman and Executive Director of NetDragon, commented: “We are extremely delighted by our achievements in the second quarter where we saw NetDragon achieving a record-high quarterly revenue of RMB786.9 million fuelled by our dual growth engines in games and education businesses.”

“Our online education business had an outstanding quarter as we experienced a remarkable 71.5% quarter-over-quarter growth. In particular, our international online education business grew by 71.1% in the second quarter sequentially, underpinned by our continuous market share gain in the worldwide market during the quarter. Our success in gaining market share is a testament to the broad based acceptance of ClassFlow™, our game-changing cloud-based education software for the international markets.”

“The games business continued to register very strong momentum this quarter with 24.2% increase in revenue and 55.8% increase in core segmental profit year-over-year. Both Eudemons Online PC and pocket versions registered record high monthly revenue or monthly prepaid income during the quarter. Meanwhile, we are getting ready to launch our new games in Calibur of Spirit mobile version and Tiger Knight in the second half of this year. We also have a strong pipeline of new games coming up in 2017, which we believe will propel our games business to a whole new level.”

“Looking forward, we expect to continue the current momentum and reap the rewards from the broad investments we have made into our games and education businesses in terms of research and development efforts as well as mergers and acquisitions that have granted us access to technologies and new markets.”

Note 3: Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortization 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 the Hong Kong Financial Reporting Standards.

Games Business

The Company's games business continued its growth momentum in the second quarter, with revenue at RMB296.7 million, a 24.2% increase year-over-year. This solid performance was attributable to broad-based revenue growth of our major games. In particular, Eudemons Online and Eudemons Online Pocket version both registered record high monthly revenue or monthly prepaid income during the quarter. Another flagship game, Calibur of Spirit, also continued to further player base, with DAU (daily active users) of 1.8 million in April.

In addition, various operational indicators continued to improve with an increase of 9.6% year-over-year of PCU at approximately 776,000, an increase of 9.1% year-over-year of ACU at 347,000.

Looking into the second half of this year, the Company is excited as we get ready to launch the long-awaited Calibur of Spirit mobile game. We are confident to see substantial revenue contribution from Calibur of Spirit mobile game after its launch. In addition, the Company expects to start generating revenue from Tiger Knight, our new 3D action strategy game, by the end of this year.

Riding on the success of Eudemons Online, the Company plans to launch an App for mobile devices for Eudemons Online during the second half of this year, aiming to provide better protection to users' accounts and improved user experience, which will help us to further strengthen player retention. The Company will also be launching significant new game-play features and monetization schemes in Calibur of Spirit in next half year which we are confident will drive up monthly gross revenue for this game. Furthermore, the English version of Calibur of Spirit will be launched by the end of 2016, and other languages, including German, French and Russian will also become available subsequently.

To further the Company's growth of the games business over the mid- to long-run, we have a strong pipeline of new games for 2017, which will leverage our existing game IPs as well as our proprietary technologies and know-how in gaming. In particular, we expect our Virtual Reality (VR) and Augmented Reality (AR) technologies to play a major role in our upcoming launches of new games. In addition to a robust pipeline, we also expect to leverage the sporting nature of Calibur of Spirit and the immense popularity of this game to create an e-sports online community which will open up to further monetization opportunities in the future.

Education Business

Revenue from the education business of the Company was RMB480.1 million for the second quarter of 2016, a 71.5% increase quarter-over-quarter and over 34 times increase year-over-year. This was largely due to the outstanding performance of our international education business, which recorded a remarkable 71.1% increase in revenue quarter-over-quarter and 45.5% increase year-over-year on a pro forma basis. Promethean, our international education business subsidiary, also recorded an operating profit for the second quarter versus an operating loss in the first quarter, as a result of the increased revenue, improved gross margin and better cost control albeit significant increase of sales activities. ClassFlow™, the Company's flagship cloud-based interactive K-12 (Kindergarten-to-Grade 12) software for the international market, continued its growth in user base to nearly 750,000 registered users at the end of second quarter (over 50% increase as compared to March 2016). The Company also continued to take market share as we have grown at a rate of more than 2.8 times the market growth in the K-12 interactive display market during the first half

of the year and meanwhile have more than doubled our global market share in K-12 interactive flat panels, demonstrating the success of ClassFlow™ as being the key differentiation factor.

Revenue from the education business in China was RMB26.1 million in the second quarter, a 78.6% increase quarter-over-quarter and 93.5% increase year-over-year. While government funding started flowing in to schools across China starting from the second quarter, we expect such funding will drive significant revenue realization and securing of new sales contracts in the second half of the year for our online education smart classroom ecosystem featuring our flagship 101 Education PPT along with our broad offering of software components that cover pre-class lesson preparation, in-class collaborative lessons, after-school homework system, as well as customizable instant messaging designed specifically for education communities. We expect the bulk of this year's education revenue in China to be realized in the second half of the year.

The Company continued to make strong progress in the second quarter in its new product development and commercialization. Our VR Editor, our flagship VR classroom application, is scheduled to be launched during the second half of the year. The VR Editor 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 terms of AR technologies, the Company has launched AR Wiz, our AR Editor which allows developers to power up applications with fun and engaging AR contents using our proprietary AR technologies. Our joint venture with ARHT Media also made significant tractions in discussions with world-class celebrities and influential speakers to pave the way for the creation of O2O communities using hologram AR technologies. In the international K-12 markets, ClassFlow™5.0 was launched during the second quarter. In ClassFlow™5.0, marketplace has been extended to provide registered users with access not only to free resources but also to buy and sell resources via the ClassFlow™ platform. ClassFlow™5.0 also introduces several new features including ClassFlow™ Community, a discussion forum on educational or pedagogical issues, and Activity Builder that enables different types of activities to be readily inserted into lessons. The ClassFlow™ Moments smartphone app (for iOS and Android devices), which was recently launched, fosters communications between teachers and parents, and is expected to significantly increase user engagement outside of the classroom.

Looking forward, while the Company will continue to invest in the development of our products, we are confident that the product commercialization and revenue growth will continue its momentum into the second half of the year.

Management Conference Call

NetDragon will host a management conference call with PowerPoint presentation and webcast to review its second quarter and interim results ended June 30 on August 31, 2016, at 6 p.m. Hong Kong time. Management attending the conference call includes Simon Leung, Vice Chairman and Executive Director; Ben Yam, Chief Financial Officer.

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 "2016 Interim Results Conference Call" and follow the registration instructions.

About NetDragon Websoft Holdings Limited

NetDragon Websoft Holdings Limited (HKSE: 0777) is a global leader in building internet communities. 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 education space as it works to leverage its mobile Internet technologies and operational know-how to develop a game-changing education ecosystem. For more information, please visit www.netdragon.com.

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2016**

	Three Months Ended		Six Months Ended	
	30/06/2016	31/03/2016	30/06/2016	30/06/2015
	RMB '000	RMB '000	RMB '000	RMB '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	786,907	571,637	1,358,544	512,225
Cost of revenue	(349,481)	(225,192)	(574,673)	(81,971)
Gross profit	437,426	346,445	783,871	430,254
Other income and gains	63,151	15,611	78,762	56,533
Selling and marketing expenses	(134,777)	(122,214)	(256,991)	(70,133)
Administrative expenses	(162,141)	(191,584)	(353,725)	(225,098)
Development costs	(178,050)	(169,112)	(347,162)	(184,031)
Other expenses and losses	(16,646)	(6,772)	(23,418)	(8,742)
Share of profit (losses) of associates	213	(743)	(530)	(5,312)
Operating profit (loss)	9,176	(128,369)	(119,193)	(6,529)
Interest income on pledged bank deposit	-	-	-	3,190
Exchange (loss) gain on pledged bank deposit, secured bank borrowings and convertible preferred shares	(6,341)	2,192	(4,149)	646
Gain on derivative financial instrument	92,180	3,661	95,841	-
Gain on disposal of held-for-trading investment	-	-	-	1,401
Net gain (loss) on held-for-trading investments	4,255	(3,245)	1,010	(10,732)
Finance costs	(2,031)	(2,737)	(4,768)	(1,640)
Profit (loss) before taxation	97,239	(128,498)	(31,259)	(13,664)
Taxation	(6,679)	(6,295)	(12,974)	(11,994)
Profit (loss) for the period	90,560	(134,793)	(44,233)	(25,658)
Other comprehensive expense for the period, net of income tax:				
Items that may be subsequently reclassified to profit or loss:				
Exchange differences arising on translation of foreign operations	(35,166)	(10,084)	(45,250)	(129)
Fair value loss on available-for-sale investment	(3,448)	-	(3,448)	-
Other comprehensive expense for the period	(38,614)	(10,084)	(48,698)	(129)
Total comprehensive income (expense) for the period	51,946	(144,877)	(92,931)	(25,787)



Profit (loss) for the period attributable to				
-Owners of the Company	70,669	(113,563)	(42,894)	(18,374)
-Non-controlling interests	19,891	(21,230)	(1,339)	(7,284)
	90,560	(134,793)	(44,233)	(25,658)
Total comprehensive income (expense) attributable to:				
-Owners of the Company	37,336	(122,340)	(85,004)	(18,503)
-Non-controlling interests	14,610	(22,537)	(7,927)	(7,284)
	51,946	(144,877)	(92,931)	(25,787)
	RMB cents	RMB cents	RMB cents	RMB cents
Earnings (loss) per share				
-Basic	14.30	(22.98)	(8.68)	(3.72)
-Diluted	14.30	(22.98)	(8.68)	(3.72)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 June 2016

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Non-current assets		
Property, plant and equipment	1,303,082	1,246,117
Prepaid lease payments	545,499	438,677
Investment properties	54,186	55,377
Intangible assets	867,766	953,950
Interests in associates	17,115	18,883
Available-for-sale investments	25,737	5,000
Loan receivables	26,227	23,081
Trade receivables	15,157	18,112
Deposits made for acquisition of property, plant and equipment	15,554	18,302
Goodwill	368,582	334,839
Deferred tax assets	3,199	3,611
	<u>3,242,104</u>	<u>3,115,949</u>
Current assets		
Inventories	143,836	117,584
Prepaid lease payments	6,789	2,733
Loan receivables	8,084	3,397
Trade receivables	457,150	234,733
Amounts due from customers for contract work	4,355	4,339
Other receivables, prepayments and deposits	131,454	115,918
Amount due from a related company	1,704	1,704
Amounts due from associates	1,847	11,204
Tax recoverable	3,013	11,159
Held-for-trading investment	171,650	170,640
Bank deposits	190,654	583,091
Bank balances and cash	843,919	1,126,957
	<u>1,964,455</u>	<u>2,383,459</u>
Assets classified as held for sale	-	2,690
	<u>1,964,455</u>	<u>2,386,149</u>
Current liabilities		
Trade and other payables	468,604	507,592
Amounts due to customers for contract work	1,617	993
Provisions	30,543	29,373
Deferred income	84,467	85,039
Amount due to a related company	3,349	2,254
Amounts due to associates	2,147	9,632
Convertible preferred shares	188,504	278,499



Secured bank borrowings	121,293	25,142
Income tax payable	30,174	95,194
	930,698	1,033,718
Net current assets	1,033,757	1,352,431
Total assets less current liabilities	4,275,861	4,468,380
Non-current liabilities		
Other payables	8,922	12,723
Provisions	1,799	2,027
Deferred tax liabilities	135,282	149,993
	146,003	164,743
Net assets	4,129,858	4,303,637
Capital and reserves		
Share capital	36,607	36,726
Share premium and reserves	4,084,155	4,257,120
Equity attributable to owners of the Company	4,120,762	4,293,846
Non-controlling interests	9,096	9,791
	4,129,858	4,303,637