

NetDragon Announces 2016 Third Quarter Financial Results

- *Games business continues year-over-year growth momentum, poised for strong growth in 2017 with a robust pipeline*
- *Laying solid foundation for education users ramp-up and revenue growth in 2017*

(Hong Kong, December 1, 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 third quarter. NetDragon’s management team will hold a conference call and webcast at 6:30 p.m. Hong Kong time on December 1 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman and Executive Director of NetDragon, commented: “NetDragon recorded solid financial results of RMB694.5 million in revenue representing 167.7% increase year-over-year. Calibur of Spirit and Eudemons Online continued to be well received among our players and the main driver for revenue growth and segmental profit on a year-over-year basis. On a quarterly basis, our performance in the third quarter was in line with seasonality that is largely consistent with historical pattern in recent years.” Mr Liu also expressed: “I’m excited to see our pipeline for new games entering its strongest phase in recent years, with at least five new games to be launched in 2017, taking our games business to a new level.”

“Our education business continued to register a strong third quarter with revenues of RMB392.2 million, representing over 40 times growth year-over-year. For the international education business, Promethean recorded a 20.3% year-over-year increase in revenue on a pro-forma basis resulting in an improved gross profit margin and a positive EBITDA for the quarter. ClassFlow™, our international flagship cloud-based education platform, has grown its user base to 2.4 million users at the end of third quarter (including over 1 million teachers), forming a strong foundation for user base growth in 2017. In China, encouraged by the very positive user engagement feedback on our 101 Education PPT software, we have started to accelerate product sales during the quarter. Finally, I am very excited about the commercialization of our Virtual Reality (VR) Editor in 2017. This will be the world’s first DIY VR editor software used for education.”

Financial Highlights

- Revenue was RMB694.5 million, representing a 167.7% increase year-over-year.
- Revenue from the games business was RMB286.6 million, representing 41.3% of the Company’s total revenue, registered a 19.9% increase year-over-year.
- Revenue from the education business was RMB392.2 million, representing 56.5% of the Company’s total revenue, registered over 40 times increase year-over-year.
- Gross profit was RMB385.0 million, representing a 78.7% increase year-over-year.
- Core segmental profit¹ from the games business was RMB80.1 million, representing a 26.6% increase year-over-year.
- Core segmental loss¹ from the education business was RMB106.3 million, representing a 44.3% increase year-over-year.

¹ Core 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, 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

- Non-GAAP² operating loss was RMB88.9 million, mainly attributable to non-cash exchange difference, difference in government grants that tends to fluctuate from quarter to quarter, and lower revenue contribution from Prometheus due to seasonality impact that is consistent with historical Q3 vs Q2 trend.
- Net loss attributable to owners of the Company was RMB65.4 million.

2016 Q3 Gaming Operational Metrics

- Monthly average revenue per user (“ARPU”) for online games was approximately RMB240, a 17.6% increase year-over-year.
- Average Concurrent Users (“ACU”) for online games was approximately 342,000, a 5.0% decrease year-over-year.
- Peak Concurrent Users (“PCU”) for online games was approximately 720,000, a 5.4% decrease year-over-year.

Segmental Financial Highlights

(RMB ‘000)	FY2016Q3		FY2016Q2		FY2015Q3	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	286,559	392,220	296,697	480,107	238,961	9,526
Gross Profit	266,002	115,436	279,736	155,803	216,593	1,162
Gross Margin	92.8%	29.4%	94.3%	32.5%	90.6%	12.2%
Core Segmental Profit (Loss) ¹	80,110	(106,301)	99,356	(87,695)	63,286	(73,689)
Segmental Operating Expenses ³						
- Research and development	(91,283)	(95,717)	(82,060)	(91,390)	(70,634)	(36,757)
- Selling and marketing	(39,223)	(81,561)	(37,732)	(95,323)	(35,329)	(6,756)
- Administrative	(62,046)	(32,569)	(66,586)	(39,090)	(56,980)	(23,099)

Games Business

² To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), the use of non-GAAP operating loss measures is provided solely to enhance the overall understanding of the Group’s current financial performance. The non-GAAP operating loss measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating loss of the Group excludes share-based payments expense and amortisation of intangible assets arising on acquisition of subsidiaries

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 HKFRS 8

The Company's games business continued its growth momentum in the third quarter, with revenue at RMB286.6 million, a 19.9% increase year-over-year, and core segmental profit at RMB80.1 million, a 26.6% increase year-over-year. The solid performance was mainly attributable to broad-based revenue growth of Calibur of Spirit and Eudemons Online PC and pocket version.

While the third quarter being a traditionally low season for Eudemons Online, its revenue recorded a strong 17.4% increase year-over-year. In addition, Eudemons Online Pocket version continued to receive strong traction and recorded a record high monthly gross revenue in August on the back of the launch of new game-play features. Another flagship game, Calibur of Spirit, also experienced 17.9% growth in revenue year-on-year demonstrating the continuous popularity of this game.

Various operational indicators including ACU and PCU have experienced fluctuations in the third quarter, due to seasonality and the stepped-up efforts in clearing bots during the period. Such clearing efforts are necessary for maintaining the healthy balance of the gaming ecosystem, which will strengthen our monetization scheme over time.

Looking into the rest of the year, the Company is confident to see strong revenue contribution from Eudemons Online driven by the expansion pack launched in October. Furthermore, the English version and Traditional Chinese version of Tiger Knight, our new large-scale 3D online war game, were released on Steam platform in October and will start generating revenue for the fourth quarter.

Our management is excited about the pipeline we have built and a number of new games to be released in the next 12 months, including the new Eudemons Online mobile game to be co-developed with Kingsoft, several new games leveraging the technologies of Calibur of Spirit, and the simplified Chinese version of Tiger Knight. Such strong pipeline is expected to drive robust growth for the Company's games business in 2017 and beyond.

Finally, the Company has made significant progress in the integration VR and Augmented Reality (AR) technologies in our games. We have started adding VR capability to Tiger Knight, which delivers an immersive real battle fighting experience to our players. The Company is confident that its proprietary technologies and know-how in gaming products will open up new revenue streams in the future.

Education Business

Revenue from the education business was RMB392.2 million for the third quarter of 2016, over 40 times increase year-over-year, which reflected the consolidation of Promethean's revenue and the beginning of revenue ramp-up of our education business in China.

On a pro-forma basis, our Promethean subsidiary registered a 20.3% increase year-over-year in revenue, demonstrating the success of the Company's acquisition and integration strategy. In addition, Promethean continued to make progress on streamlining operations as well as cost rationalization, resulted in a positive EBITDA for the third quarter.

The Company continued to invest in the development and marketing of ClassFlow™, its flagship cloud-based interactive K-12 (Kindergarten-to-Grade 12) software for the international market, with a user base that has grown to 2.4 million users (including over 1 million teachers) at the end of the third quarter.

The management is confident that 2017 will be a big year of user scaling and user engagement for ClassFlow™ because (1) we are on track to convert users of ActivInspire, our popular legacy lesson preparation software that works with our K-12 interactive display products, into users of ClassFlow™ through a number of initiatives that will enable a seamless transition, ; (2) users of our Promethean Planet community portal have recently been converted into ClassFlow™, thus directing traffic and activity into ClassFlow™; and (3) we are ramping up our engagement efforts through various online and high touch initiatives. Going forward,

we will continue to execute our strategy of solving teachers' pain points and driving teachers' engagement and adoption of ClassFlow™, which in turn will drive adoption by students and parents.

Revenue from the education business in China was RMB55.5 million in the third quarter, a 482.5% increase year-over-year. Our contracted revenue is at around RMB90.5 million from January to October this year. The third quarter marks the beginning of the large scale commercialization in China, backed by the very positive user engagement feedback on our flagship 101 Education PPT software, including time-saving in lesson preparation, enhancement of classroom interactivity and the high frequency of user log-in and usage of the software. Such positive feedback is a validation to the value that our software creates for our users, which lays the foundation for a strong user ramp up in 2017 as we commence our broad-based user acquisition and engagement efforts.

During the quarter, the Company also completed the development of the beta version of our VR Editor, which we believe will be the world's first DIY VR Editor for education purpose with a comprehensive 3D content library. We will begin the commercialization of VR Editor in the first half of 2017 in both K-12 and the higher-education space, and we expect such product to form a core component of our revenue going forward.

Looking forward, the Company also plans to expand its education business to emerging markets including India and the Middle East, while continues to focus on growing the user base of our products in the existing markets, which in turn will help drive revenue growth.

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Management Conference Call

NetDragon will host a management conference call with PowerPoint presentation and webcast to review its third quarter on December 1, 2016, at 6:30 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 "3Q 2016 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 ENDED 30 SEPTEMBER 2016**

	Three Months Ended		
	30/09/2016	30/06/2016	30/09/2015
	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000
Revenue	694,544	786,907	259,412
Cost of revenue	(309,579)	(349,481)	(44,031)
Gross profit	384,965	437,426	215,381
Other income and gains	12,406	63,151	43,951
Selling and marketing expenses	(122,819)	(134,777)	(42,663)
Administrative expenses	(172,074)	(162,141)	(133,516)
Development costs	(191,788)	(178,050)	(107,472)
Other expenses and losses	(16,041)	(16,646)	(3,270)
Share of (losses) profit of associates	(184)	213	(3,177)
Operating (loss) profit	(105,535)	9,176	(30,766)
Interest income on pledged bank deposit	-	-	1,657
Exchange loss on pledged bank deposit, secured bank borrowings and convertible preferred shares	(5,733)	(6,341)	(10,527)
Gain on derivative financial instrument	37,276	92,180	13,408
Net loss on disposal of held-for-trading investments	-	-	(525)
Net gain (loss) on held-for-trading investments	5,656	4,255	(2,334)
Finance costs	(1,927)	(2,031)	(851)
(Loss) profit before taxation	(70,263)	97,239	(29,938)
Taxation	(4,082)	(6,679)	(8,072)
(Loss) profit for the period	(74,345)	90,560	(38,010)
Other comprehensive (expense) income 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	(5,359)	(35,166)	3,796
Fair value loss on available-for-sale investment	(3,131)	(3,448)	-
Other comprehensive (expense) income for the period	(8,490)	(38,614)	3,796
Total comprehensive (expense) income for the period	(82,835)	51,946	(34,214)

(Loss) profit for the period attributable to:

- Owners of the Company	(65,435)	70,669	(26,530)
- Non-controlling interests	(8,910)	19,891	(11,480)
	<u>(74,345)</u>	<u>90,560</u>	<u>(38,010)</u>

**Total comprehensive (expense) income
attributable to:**

- Owners of the Company	(73,095)	37,336	(22,734)
- Non-controlling interests	(9,740)	14,610	(11,480)
	<u>(82,835)</u>	<u>51,946</u>	<u>(34,214)</u>

	RMB cents	RMB cents	RMB cents
(Loss) earnings per share			
- Basic	(13.18)	14.30	(5.34)
- Diluted	(13.18)	14.30	(5.34)
	<u>(13.18)</u>	<u>14.30</u>	<u>(5.34)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016

	30 September 2016	31 December 2015
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,330,881	1,246,117
Prepaid lease payments	548,521	438,677
Investment properties	55,791	55,377
Intangible assets	815,110	953,950
Interests in associates	16,931	18,883
Available-for-sale investments	22,606	5,000
Loan receivables	21,073	23,081
Trade receivables	15,157	18,112
Deposits made for acquisition of property, plant and equipment	14,824	18,302
Goodwill	370,966	334,839
Deferred tax assets	3,230	3,611
	<u>3,215,090</u>	<u>3,115,949</u>
Current assets		
Inventories	170,370	117,584
Prepaid lease payments	6,789	2,733
Loan receivables	12,370	3,397
Trade receivables	313,469	234,733
Amounts due from customers for contract work	8,085	4,339
Other receivables, prepayments and deposits	117,861	115,918
Amount due from a related company	1,704	1,704
Amounts due from associates	9,222	11,204
Tax recoverable	2,941	11,159
Held-for-trading investment	177,306	170,640
Pledged bank deposit	396	-
Bank deposits	131,553	583,091
Bank balances and cash	789,478	1,126,957
	<u>1,741,544</u>	<u>2,383,459</u>
Assets classified as held for sale	-	2,690
	<u>1,741,544</u>	<u>2,386,149</u>

Current liabilities

Trade and other payables	471,132	507,592
Amounts due to customers for contract work	1,312	993
Provisions	33,109	29,373
Deferred income	85,807	85,039
Amount due to a related company	444	2,254
Amounts due to associates	1,244	9,632
Convertible preferred shares	153,227	278,499
Secured bank borrowings	37,859	25,142
Income tax payable	30,986	95,194
	<u>815,120</u>	<u>1,033,718</u>

Net current assets

	<u>926,424</u>	<u>1,352,431</u>
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Total assets less current liabilities

	<u>4,141,514</u>	<u>4,468,380</u>
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Non-current liabilities

Other payables	6,465	12,723
Provisions	1,731	2,027
Deferred tax liabilities	127,652	149,993
	<u>135,848</u>	<u>164,743</u>

Net assets

	<u>4,005,666</u>	<u>4,303,637</u>
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Capital and reserves

Share capital	36,654	36,726
Share premium and reserves	<u>3,966,018</u>	<u>4,257,120</u>
Equity attributable to owners of the Company	4,002,672	4,293,846
Non-controlling interests	<u>2,994</u>	<u>9,791</u>
	<u>4,005,666</u>	<u>4,303,637</u>