

## NetDragon Announces Fourth Quarter and Fiscal Year 2016 Financial Results

- *FY2016 revenue doubled fuelled by robust growth momentum in games and education business*
- *Multi-pronged strategy in user scaling gaining traction*

(Hong Kong, March 23, 2017) 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 fourth quarter and Fiscal Year 2016. NetDragon’s management team will hold a conference call and webcast at 6:30 p.m. Hong Kong time on March 23 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented: “I am delighted that NetDragon delivered strong results for the fiscal year 2016 by continuing with our focus on building online communities. The Company recorded a 119.5% increase in its revenue to RMB2,793.1 million. Of which, our gaming revenue was RMB1,210.0 million, increased by 22.8%, driven by the robust momentum of our flagship game Eudemon Online and more than doubling of our mobile gaming revenue. Revenue from education business jumped by over five times to RMB1,526.3 million due to penetration of our products into the international markets via our Promethean acquisition, as well as acceleration of our product commercialization in China. Our achievements in 2016 are recognized by the capital market, as evidenced by our stock being included in the Hang Seng Large-Cap & Mid-Cap Index, Shenzhen–Hong Kong Stock Connect and Shanghai–Hong Kong Stock Connect.”

“In 2016, the Company also focused on investing and strengthening our technology capabilities. Our AR and VR technologies have enabled us to enhance our content development in both gaming and education products. With these technologies, both of our gaming and education platforms are becoming uniquely attractive to our users and were able to maintain a high level of user engagement.”

“In the coming year, NetDragon targets to achieve major growth in both our gaming and education business. Our gaming business is expected to grow on the back of our push into mobile gaming and a strong pipeline of new games to be launched this year that leverage our proven IPs and technologies. For our education business, we will focus on gaining traction in revenue growth, user scaling and user engagement. In particular, part of our multi-pronged strategy in scaling up users is to work closely with the education authorities both in China and around the world. In December, we signed a strategic cooperation framework agreement with the Education Department of Fujian Province to co-develop a provincial-wide e-learning platform that will integrate 101 Education PPT and the whole suite of our education products. We expect such partnership to drive provincial-wide user adoption and will serve as a reference case for other major provinces. In the international markets, we also recently announced a new educational technology partnership with the City of Moscow – this marks our first major step in tapping into the emerging markets to expand our global footprints. We will be announcing more partnership with similar models both in China and in the emerging markets later this year. Last not but least, we target to achieve operating profitability in 2017 as a group.”

### **2016 Q4 Financial Highlights**

- Revenue was RMB740.0 million, representing a 47.8% increase year-over-year.
- Revenue from the games business was RMB342.7 million, representing 46.3% of the Group’s total revenue, registered a 21.0% increase year-over-year.
- Revenue from the education business was RMB374.0 million, representing 50.5% of the Group’s total revenue, registered a 78.3% increase year-over-year.
- Gross profit was RMB421.0 million, representing a 34.8% increase year-over-year.

- Core segmental profit<sup>1</sup> from the games business was RMB97.9 million, representing an 8.7% increase year-over-year.
- Core segmental loss<sup>1</sup> from the education business was RMB157.7 million, representing a 33.8% increase year-over-year.
- Non-GAAP<sup>2</sup> operating loss was RMB67.2 million.
- Net Loss attributable to owners of the Company was RMB94.4 million.

### **Fiscal Year 2016 Financial Highlights**

- Revenue was RMB2.79 billion, representing a 119.5% increase year-over-year.
- Revenue from the games business was RMB1.21 billion, representing 43.3% of the Group's total revenue, registered a 22.8% increase year-over-year.
- Revenue from the education business was RMB1.53 billion, representing 54.6% of the Group's total revenue, registered nearly a 5.3 times increase year-over-year.
- Gross profit was RMB1.59 billion, representing a 66.0% increase year-over-year.
- Core segmental profit<sup>1</sup> from the games business was RMB371.7 million, representing a 43.2% increase year-over-year.
- Core segmental loss<sup>1</sup> from the education business was RMB485.2 million, representing a 95.1% increase year-over-year.
- Non-GAAP<sup>2</sup> operating loss was RMB239.8 million, mainly attributable to continued investment in education business.
- Net loss attributable to owners of the Company was RMB202.7million.
- The Board of Directors proposed a final dividend of HK\$0.10 per share, subject to approval by shareholders at the coming Annual General Meeting.

### **2016 Q4 Gaming Operational Metrics**

- Monthly average revenue per user ("ARPU") for online and mobile games was approximately RMB369, a 28.6% increase year-over-year.<sup>3</sup>
- Average Concurrent Users ("ACU") for online and mobile games was approximately 336,000, a 3.7% increase year-over-year.<sup>3</sup>
- Peak Concurrent Users ("PCU") for online and mobile games was approximately 740,000, a 3.5% decrease year-over-year.<sup>3</sup>

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<sup>1</sup> 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, fair value change of convertible preferred shares, the extraordinary provision in relation to Activwall and impairment loss of plant and equipment due to the closure of a PRC factory.

<sup>2</sup> 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, amortisation of intangible assets arising on acquisition of subsidiaries, fair value change of remeasurement of previously held equity interest in an associate upon acquisition impairment of property, plant and equipment and the extraordinary provision in relation to Activwall.

<sup>3</sup> As mobile games are becoming a more integral component of our company's revenue, the Company will be adding mobile gaming operational data in the calculation going forward.

## Segmental Financial Highlights

### 2016 Q4

(RMB '000)	FY2016Q4		FY2016Q3		FY2015Q4	
	Gaming	Education	Gaming	Education	Gaming (Restated)	Education (Restated)
Revenue	342,711	374,029	286,559	392,220	283,245	209,826
Gross Profit	317,256	101,256	266,002	115,436	264,162	49,474
Gross Margin	92.6%	27.1%	92.8%	29.4%	93.3%	23.6%
Core Segmental Profit (Loss) <sup>1</sup>	97,898	(157,737)	80,110	(106,301)	90,080	(117,871)
Segmental Operating Expenses <sup>4</sup>						
- Research and development	(107,229)	(109,949)	(91,283)	(95,717)	(76,331)	(72,910)
- Selling and marketing	(44,623)	(93,710)	(39,223)	(81,561)	(36,922)	(57,659)
- Administrative	(73,307)	(41,584)	(62,046)	(32,569)	(56,707)	(32,807)

### Full Year 2016

(RMB '000)	FY2016		FY2015		Variance	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	1,210,034	1,526,298	985,427	242,801	22.8%	528.6%
Gross Profit	1,127,851	455,431	899,758	58,933	25.4%	672.8%
Gross Margin	93.2%	29.8%	91.3%	24.3%	1.9%	5.5%
Core Segmental Profit (Loss) <sup>1</sup>	371,678	(485,176)	259,508	(248,619)	43.2%	95.1%
Segmental Operating Expenses <sup>4</sup>						
- Research and development	(357,916)	(384,904)	(293,182)	(147,375)	22.1%	161.2%
- Selling and marketing	(155,098)	(358,431)	(134,415)	(71,498)	15.4%	401.3%
- Administrative	(262,403)	(152,195)	(219,039)	(77,404)	19.8%	96.6%

<sup>4</sup> 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

## **Games Business**

During the fourth quarter of 2016, the Company's games business recorded a strong 21.0% year-over-year increase in its revenue at RMB342.7 million, and core segmental profit at RMB97.9 million, an 8.7% increase year-over-year. The solid performance was mainly driven by Eudemons Online PC and pocket version, both of which have reached a record high monthly gross revenue in December 2016 with enhanced ARPU.

On a full year basis, revenue from the games business increased 22.8% to RMB1,210.0 million in FY2016, with core segmental profit at RMB371.7 million, an increase of 43.2% over the prior year. During the year, leveraging on the growth trajectory of the mobile gaming space, NetDragon has pushed forward heavily on the marketing and development effort of our mobile games. Revenue of mobile game business for FY2016 more than doubled compared to the year before. In addition, the Company continued to leverage on the strong titles of its flagship games, in particular with Heroes Evolved (formerly known as "Calibur of Spirit") and Eudemons Online, by launching new expansion packs coupled with marketing events to drive the growth momentum.

Eudemons Online has gained increasing traction and popularity in the market, as evidenced by a solid year with a combined revenue increase of 31.0% from its PC and pocket version. The new PC expansion pack launched in October with new game-play features has pushed its gross monthly revenue to a record high level in December. Riding on the success of the PC version, Eudemons Online pocket version has also closed out with a fruitful year – the new expansion pack launched in December, with new feature that aims to strengthen user loyalty and promote online interactions has successfully attracted a significant user traffic. Looking forward, the Company will continue to launch content updates for both its PC and pocket version to further the popularity of Eudemons Online in 2017.

The Company's other flagship game, Heroes Evolved, also experienced a solid year underpinned by its continuous improvement in new game-play features and monetization schemes. The long awaited pocket version of the game has also been successfully launched in English and simplified Chinese in December on Android platform and also in simplified Chinese on IOS platform earlier this year. The feedback from the market is extremely positive, and the game was recognized as "the top downloaded mobile game" on Tencent Open Platform in January 2017. The Company has planned two new games leveraging the technologies and title of Heroes Evolved to be launched in 2017, which would further the user base and revenue ramp-up.

Looking forward, the Company is confident that the games business will continue its robust growth driven by a strong pipeline it has built and the long-term growth strategy through leveraging proprietary gaming IPs and self-owned technologies, as well as making a major push into mobile gaming. The Company is on track to release at least 5 new games in 2017. Included in the pipeline is also a number of mobile games which is expected to drive the Company mobile gaming revenue to a new level in 2017. The Company will also continue to explore and develop new games with VR and AR technologies, on top of the existing VR Tiger Knight, which has had received very positive feedback in the market.

## **Education Business**

For the fourth quarter of 2016, revenue from the education business was RMB374.0 million, a 78.3% increase year-over-year. On a pro-forma basis, our international education business registered a 36.8% increase year-over-year in revenue to RMB 289.4 million, reflecting a strong finish to the year. On the other hand, the domestic education business continued to gain traction for the quarter as it recorded a revenue at RMB84.6 million, a 52.5% over the third quarter.

2016 marks the full year integration of Promethean, our international education subsidiary, which

contributed to a 5.3 times increase in FY2016 revenue from the education business to RMB1,526.3 million. On a pro-forma basis, revenue from our international business increased by 31.7% to RMB1,345.5 million, reflecting the strong demand for our international education products most notably in the US and UK. The Company has also achieved significant cost rationalization and a more streamlined operations for our international education business during the year. The management targets to achieve overall profitability of the international education business for the full year 2017.

The Company is also gaining exciting traction in the emerging markets. In March 2017, the Company has announced a new technology partnership with the City of Moscow where over 14,500 educators throughout Moscow will be able to engage with students using Promethean interactive flat panel display. This partnership illustrates the Company's traction in capitalizing on the Belt and Road Initiative.

The Company has seen significant progress in our user scaling and user engagement activities. The user number of ClassFlow™, our flagship cloud-based interactive K-12 (Kindergarten-to-Grade 12) software for the international market, has increased to over 2.6 million at the end of 2016 (including 1.7 million teachers). In the domestic market, our plan is to pursue a multi-pronged strategy in scaling up users in China including (1) forging close partnership with education authorities across the country (case in point being the strategic cooperation framework agreement with the Education Department of Fujian Province signed in December to drive provincial-wide adoption of our 101 products); (2) holding a series of nationwide educational events for teachers in major cities and provinces to drive teachers' usage; (3) partnering with education technology solutions companies with pre-existing K-12 distribution network to integrate our 101 products into their solutions; and (4) continuing to participate in education technology product tenders in schools across the country. On a worldwide basis including China, the number of total online users of our education platforms is expected to grow to over 10 million including over 3 million teachers in 2017.

Looking forward, the Company will continue to invest in the development of our products, and to apply VR and AR technologies to strengthen our users' learning experience. VR Editor has started its pilot-launch, and we are excited with the potential of this product based on the user feedback we have received so far. The Company's technologies are also getting increasing validation around the world. For example, NetDragon hosted the "2017 Workshop on Virtual Reality and Immersive Learning" at Harvard University in January to develop a road map that will use virtual reality to improve immersive learning techniques for students globally. Furthermore, we will be hosting a major learning event in Hong Kong on March 24, where world-renowned scientist Professor Stephen Hawking will be beamed from the UK, leveraging on our proprietary Humagram technology, to share his perspectives with university students.

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## Management Conference Call

NetDragon will host a management conference call with PowerPoint presentation and webcast to review its fourth quarter and annual results ended December 31, 2016 on March 23, 2017 at 6:30 p.m. Hong Kong time.

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 "4Q and Fiscal Year 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 including Eudemons Online, Heroes Evolved (formerly known as Calibur of Spirit) and Conquer Online. The company also established 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).

For investor enquiries, please contact:

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE QUARTER/YEAR ENDED DECEMBER 31, 2016**

	<b>4Q 2016</b>	3Q 2016	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Unaudited)	<b>(Audited)</b>	(Audited)
	<b>RMB '000</b>	RMB '000	<b>RMB '000</b>	RMB '000
<b>Revenue</b>	<b>740,015</b>	694,544	<b>2,793,103</b>	1,272,197
Cost of revenue	<u>(318,982)</u>	<u>(309,579)</u>	<u>(1,203,234)</u>	<u>(314,161)</u>
<b>Gross profit</b>	<b>421,033</b>	384,965	<b>1,589,869</b>	958,036
Other income and gains	<b>77,795</b>	12,406	<b>163,018</b>	187,927
Selling and marketing expenses	<b>(139,852)</b>	(122,819)	<b>(519,662)</b>	(206,778)
Administrative expenses	<b>(195,168)</b>	(172,074)	<b>(720,967)</b>	(520,104)
Development costs	<b>(220,982)</b>	(191,788)	<b>(759,932)</b>	(446,229)
Other expenses and losses	<b>(27,620)</b>	(16,041)	<b>(61,134)</b>	(24,092)
Share of losses of associates	<b>(148)</b>	(184)	<b>(862)</b>	(9,912)
Provision for product impairment	<u>(77,774)</u>	<u>-</u>	<u>(77,774)</u>	<u>-</u>
<b>Operating loss</b>	<b>(162,716)</b>	(105,535)	<b>(387,444)</b>	(61,152)
Interest income on pledged bank deposit	-	-	-	6,018
Exchange loss on pledged bank deposits, secured bank borrowings and convertible preferred shares	<b>(11,942)</b>	(5,733)	<b>(21,824)</b>	(15,504)
Net (gain) loss on convertible preferred shares	<b>60,240</b>	37,276	<b>193,357</b>	(2,521)
Net loss on other derivative financial instrument	-	-	-	(393)
Net gain on disposal of held-for-trading investments	<b>253</b>	-	<b>253</b>	876
Net (gain) loss on held-for-trading investments	<b>8,880</b>	5,656	<b>15,546</b>	(9,144)
Finance costs	<u>(1,955)</u>	<u>(1,927)</u>	<u>(8,650)</u>	<u>(5,431)</u>
<b>Loss before taxation</b>	<b>(107,240)</b>	(70,263)	<b>(208,762)</b>	(87,251)
Taxation	<u>(10,966)</u>	<u>(4,082)</u>	<u>(28,022)</u>	<u>(100,675)</u>
<b>Loss for the period/year</b>	<b>(118,206)</b>	(74,345)	<b>(236,784)</b>	(187,926)

Other comprehensive (expense) income for the period/year, net of

Item that will not be reclassified subsequently to profit or loss:

Gain on revaluation of properties	-	-	-	21,776
	-	-	-	21,776

Items that may be reclassified subsequently to profit or loss:

Exchange differences arising on translation of foreign operations	(32,058)	(5,359)	(82,667)	12,208
Fair value loss on available-for-sale investment	(4,723)	(3,131)	(11,302)	-
	(36,781)	(8,490)	(93,969)	12,208

Other comprehensive (expense) income for the period/year

	(36,781)	(8,490)	(93,969)	33,984
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Total comprehensive expense for the period/year

	(154,987)	(82,835)	(330,753)	(153,942)
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Loss for the period/year attributable to:

- Owners of the Company	(94,413)	(65,435)	(202,742)	(142,979)
- Non-controlling interests	(23,793)	(8,910)	(34,042)	(44,947)
	(118,206)	(74,345)	(236,784)	(187,926)

Total comprehensive expense attributable to:

- Owners of the Company	(126,292)	(73,095)	(284,391)	(109,872)
- Non-controlling interests	(28,695)	(9,740)	(46,362)	(44,070)
	(154,987)	(82,835)	(330,753)	(153,942)

**RMB cents**

RMB cents

**RMB cents**

RMB cents

**Loss per share**

- Basic	(19.01)	(13.18)	(40.93)	(28.85)
- Diluted	(19.01)	(13.18)	(40.93)	(28.85)



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 December 2016**

	2016	2015
	RMB'000	RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	1,284,494	1,246,117
Prepaid lease payments	509,018	438,677
Investment properties	57,964	55,377
Intangible assets	722,498	953,950
Interests in associates	16,783	18,883
Available-for-sale investments	17,883	5,000
Loan receivables	20,477	23,081
Trade receivables	11,490	18,112
Deposits made for acquisition of property, plant and equipment	14,585	18,302
Goodwill	338,237	334,839
Deferred tax assets	3,445	3,611
	<b>2,996,874</b>	<b>3,115,949</b>
<b>Current assets</b>		
Properties under development	55,429	-
Inventories	125,285	117,584
Prepaid lease payments	6,003	2,733
Loan receivables	13,712	3,397
Trade receivables	351,693	234,733
Amounts due from customers for contract work	10,640	4,339
Other receivables, prepayments and deposits	121,564	115,918
Amount due from a related company	1,704	1,704
Amounts due from associates	8,561	11,204
Tax recoverable	3,281	11,159
Held-for-trading investment	151,783	170,640
Pledged bank deposit	411	-
Bank deposits	55,496	583,091
Bank balances and cash	876,532	1,126,957
	<b>1,782,094</b>	<b>2,383,459</b>
Assets classified as held for sale	-	2,690
	<b>1,782,094</b>	<b>2,386,149</b>

**Current liabilities**

Trade and other payables	531,757	507,592
Amounts due to customers for contract work	988	993
Provisions	45,876	29,373
Deferred income	84,567	85,039
Amount due to a related company	978	2,254
Amounts due to associates	4,558	9,632
Convertible preferred shares	104,101	278,499
Secured bank borrowings	29,000	25,142
Income tax payable	18,364	95,194
	<u>820,189</u>	<u>1,033,718</u>

**Net current assets**

961,905 1,352,431

**Total assets less current liabilities**

3,958,779 4,468,380

**Non-current liabilities**

Other payables	5,582	12,723
Provisions	1,702	2,027
Deferred tax liabilities	123,218	149,993
	<u>130,502</u>	<u>164,743</u>

**Net assets**

3,828,277 4,303,637

**Capital and reserves**

Share capital	36,571	36,726
Share premium and reserves	3,817,258	4,257,120
	<u>3,853,829</u>	<u>4,293,846</u>
Equity attributable to owners of the Company		
Non-controlling interests	(25,552)	9,791
	<u>3,828,277</u>	<u>4,303,637</u>