

NetDragon Announces 2017 First Quarter Financial Results

On track to profitability, operating loss reduced by half

(Hong Kong, 13 June 2017) NetDragon Websoft Holdings Limited (“NetDragon” or the “Company”; Hong Kong Stock Code: 777), a global leader in building internet communities, today announced its first quarter results ended 31 March 2017. NetDragon’s management team will hold a conference call and webcast at 6:30 p.m. Hong Kong time on 13 June 2017 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented: “I am extremely pleased to see the strong financial results during the first quarter, with a 24.8% increase year-over-year in its revenue to RMB713.4 million. Our games business delivered robust performance with a revenue increase of 40.3% year-over-year. This served as a strong testament to our flagship games including Eudemons Online and Heroes Evolved. I am also excited to see the increasing contribution from our mobile games as mobile revenue more than doubled year-over-year. We expect to carry the momentum into the upcoming quarters as we start to see revenue contribution from our new games. Meanwhile we have a strong pipeline in terms of integrating our Virtual Reality (VR) and Augmented Reality (AR) technologies into our games which will expand our gaming portfolio into a new territory with substantial growth potential.”

“We are seeing very positive momentum in our education business. Our user-scaling in China is gaining traction as we have significantly expanded our geographical coverage in terms of our cooperation with provincial and local education bureaus. Our international education business also delivered a steady performance in terms of revenue in Q1, and we are seeing significant ramp up of our sales pipeline as we move into the peak season in Q2 and Q3, paving the way for what we expect to be a robust growth of our revenue for the rest of the year. In addition, we are continuing to make progress to capitalize the Belt and Road Initiative to tap into the emerging markets in order to expand our global footprints. The partnership in Russia announced in March is our first step and we are seeing momentum in many other sizable new opportunities within the region.”

Mr. Ben Yam, Chief Financial Officer of NetDragon, commented: “In addition to seeing strong revenue performance of our core businesses, we are also delighted to see substantial improvement in our profitability as we have delivered a positive EBITDA during the quarter while our loss attributable to owners and Non-GAAP operating loss for the company as a whole have reduced by more than 50% on a year-over-year basis. We have achieved this by driving higher profitability for our gaming business and continuing to optimize our cost structure for our international education business as part of our post-acquisition integration of Promethean. Looking forward, we expect to be on track to achieve operating profitability.”

2017 Q1 Financial Highlights

- Revenue was RMB713.4 million, representing a 24.8% increase year-over-year.
- Revenue from the games business was RMB398.5 million, representing 55.9% of the Group’s total revenue, registered a 40.3% increase year-over-year.
- Revenue from the education business was RMB297.8 million, representing 41.7% of the Group’s total revenue, registered a 6.4% increase year-over-year.
- Gross profit was RMB445.8 million, representing a 28.7% increase year-over-year.
- Core segmental profit¹ from the games business was RMB168.8 million, representing a 78.9% 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, fair value change of convertible preferred shares, impairment of property, plant and equipment and provision for product impairment.

- Core segmental loss¹ from the education business was RMB157.8 million, representing an 18.3% increase year-over-year.
- Non-GAAP² operating loss improved to RMB45.7 million compared to RMB111.8 million for the same period last year.
- Loss attributable to owners of the Company improved to RMB45.7million compared to RMB113.6 million for the same period last year

2017 Q1 Gaming Operational Metrics

- Monthly Average Revenue Per User (“ARPU”) was approximately RMB428, a 55.6% increase year-over-year.
- Average Concurrent Users (“ACU”) was approximately 310,000, an 8.3% decrease year-over-year.
- Peak Concurrent Users (“PCU”) was approximately 736,000, a 3.5% decrease year-over-year.
- Active Paying Accounts (“APA”) was approximately 749,000, a 39.2% increase year-over-year.

Segmental Financial Highlights

(RMB ‘000)	FY2017Q1		FY2016Q4		FY2016Q1	
	Gaming	Education	Gaming	Education	Gaming (Restated)	Education (Restated)
Revenue	398,501	297,771	342,711	374,029	284,067	279,942
Gross Profit	377,275	68,563	317,256	101,256	264,857	82,936
Gross Margin	94.7%	23.0%	92.6%	27.1%	93.2%	29.6%
Core Segmental Profit (Loss) ¹	168,761	(157,799)	97,898	(157,737)	94,314	(133,443)
Segmental Operating Expenses ³						
- Research and development	(99,527)	(88,960)	(107,229)	(109,949)	(77,344)	(87,848)
- Selling and marketing	(49,638)	(94,338)	(44,623)	(93,710)	(33,520)	(87,837)
- Administrative	(65,871)	(36,104)	(73,307)	(41,584)	(60,464)	(38,952)

Games Business

During the first quarter of 2017, the Company’s games business continued to deliver substantial growth, with revenue at RMB398.5 million, a 40.3% increase year-over-year, and core segmental profit at RMB168.8 million, a 78.9% increase year-over-year. The robust development in the games business was mainly attributable to our ability to expand monetization schemes through deep understanding of player demands, as well as increasing contribution from our mobile games. As a new growth driver, our mobile games

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

business registered a 117.4% increase year-over-year. In addition, our APA and ARPU showed further improvement, with a year-over-year increase of 39.2% and 55.6% respectively.

While the Company continues to see revenue growth in Eudemons Online, the Company's other flagship game, Heroes Evolved, has also received an extremely positive feedback from the market. Heroes Evolved pocket version of this game was being ranked as the 'top downloaded mobile game' on Tencent Open Platform for five consecutive months with monthly active users (MAU) over 5 million. In addition, Heroes Evolved PC version was awarded with the recognition as one of the "top 10 most popular web game" by Tencent in January 2017..

Looking forward, we expect the gaming business to continue the momentum in Q1 as we launch new games including our second Eudemons Online mobile game (in partnership with KingSoft) and Tiger Knight Chinese version. We will also continue to ramp up monetization for Heroes Evolved pocket version to capitalize on its sizable MAU. In addition, we are excited by the fact that Tiger Knight was included by Sony as part of its renowned "PlayStation® China Hero Project" in March. This partnership with Sony will bring Tiger Knight with access to over 53 million global Sony PlayStation® users, and serves as a compelling validation to the quality of the game itself.

Education Business

Our international education business maintained a steady performance during the traditionally slow season in the first quarter with revenue of RMB265.9 million. ClassFlow™ users have reached a record high of 3.0 million, of which about 1.7 million users were teachers. The first quarter also marked an important milestone for the Company's education business in expanding its global footprint into the emerging market. The partnership with the City of Moscow was announced earlier this year where the City plans to equip over 14,500 educators throughout Moscow with education technologies.

Our focus in China continues to be user acquisition where we have seen significant traction. During the quarter, we continued to expand our coverage in terms of our cooperation with strategic partners and channel partners. In particular, we are actively pursuing cooperation with provincial and local education bureaus, where we have established or is in the process of finalizing cooperation with education bureaus in multiple provinces where product trainings will be held for teachers. We have also signed a strategic partnership agreement with the education bureau of Guangzhou in the first quarter as an important first step in promoting our products in the Guangdong province.

Looking forward, as the second quarter is well-established as the peak season in the industry, the Company is expecting its education business to record substantial revenue growth in the upcoming quarter. Furthermore, the Company is gearing up to monetize our existing user base with the introduction of a new monetization scheme in the ClassFlow™ community planned for the second half of this year. The Company also continued to expand into a number of sizable opportunities along the Belt and Road Initiative, which will strengthen our global presence in due course. In China, our traction in gaining users is expected to pick momentum, as our multi-pronged user acquisition strategy begins to bear fruit.

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Management Conference Call

NetDragon will host a management conference call with PowerPoint presentation and webcast to review its first quarter ended 31 March 2017 on 13 June 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 "1Q 2017 Results Conference Call" and follow the registration instructions.

About NetDragonWebsoft Holdings Limited

NetDragonWebsoft 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.

For investor enquiries, please contact:

NetDragonWebsoft Holdings Limited

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: ir.netdragon.com

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2017

	Three Months Ended		
	31 March 2017 (Unaudited) RMB'000	31 December 2016 (Unaudited) RMB'000	31 March 2016 (Unaudited and restated) RMB'000
Revenue	713,442	740,015	571,637
Cost of revenue	(267,639)	(318,982)	(225,192)
Gross profit	445,803	421,033	346,445
Other income and gains	10,526	77,795	15,611
Selling and marketing expenses	(146,038)	(139,852)	(122,214)
Administrative expenses	(172,253)	(195,168)	(168,699)
Development costs	(193,806)	(220,982)	(169,112)
Other expenses and losses	(4,559)	(27,620)	(29,657)
Share of losses of associates	(195)	(148)	(743)
Share of loss of a joint venture	(7)	-	-
Provision for product impairment	-	(77,774)	-
Operating loss	(60,529)	(162,716)	(128,369)
Exchange gain (loss) on pledged bank deposit, secured bank borrowings and convertible preferred shares	249	(11,942)	2,192
Net gain on convertible preferred shares	5,218	60,240	3,661
Net gain on disposal of held-for-trading investment	71	253	-
Net gain (loss) on held-for-trading investment	23	8,880	(3,245)
Finance costs	(2,189)	(1,955)	(2,737)
Loss before taxation	(57,157)	(107,240)	(128,498)
Taxation	(15,911)	(10,966)	(6,295)
Loss for the period	(73,068)	(118,206)	(134,793)
Other comprehensive income (expense) for the period, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	3,435	(32,058)	(10,084)
Fair value gain (loss) on available-for-sale investment	388	(4,723)	-
	3,823	(36,781)	(10,084)



Total comprehensive expense for the period	<u>(69,245)</u>	<u>(154,987)</u>	<u>(144,877)</u>
Loss for the period attributable to:			
- Owners of the Company	(45,666)	(94,413)	(113,563)
- Non-controlling interests	<u>(27,402)</u>	<u>(23,793)</u>	<u>(21,230)</u>
	<u>(73,068)</u>	<u>(118,206)</u>	<u>(134,793)</u>
Total comprehensive expense attributable to:			
- Owners of the Company	(42,425)	(126,292)	(122,340)
- Non-controlling interests	<u>(26,820)</u>	<u>(28,695)</u>	<u>(22,537)</u>
	<u>(69,245)</u>	<u>(154,987)</u>	<u>(144,877)</u>
	RMB cents	RMB cents	RMB cents
Loss per share			
- Basic	(9.20)	(19.01)	(22.98)
- Diluted	<u>(9.20)</u>	<u>(19.01)</u>	<u>(22.98)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	31 March 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Non-current assets		
Property, plant and equipment	1,323,765	1,284,494
Prepaid lease payments	507,529	509,018
Investment properties	57,529	57,964
Intangible assets	713,049	722,498
Interests in associates	16,588	16,783
Interest in a joint venture	17,993	-
Available-for-sale investments	28,632	17,883
Loan receivables	20,384	20,477
Trade receivables	11,490	11,490
Deposits made for acquisition of property, plant and equipment	11,017	14,585
Goodwill	340,760	338,237
Deferred tax assets	3,464	3,445
	3,052,200	2,996,874
Current assets		
Properties under development	56,161	55,429
Inventories	87,996	125,285
Prepaid lease payments	6,003	6,003
Loan receivables	12,185	13,712
Trade receivables	367,349	351,693
Amounts due from customers for contract work	5,402	10,640
Other receivables, prepayments and deposits	127,874	121,564
Amounts due from related companies	1,735	1,704
Amounts due from associates	7,599	8,561
Tax recoverable	393	3,281
Held-for-trading investment	83,022	151,783
Pledged bank deposit	408	411
Bank deposit	-	55,496
Bank balances and cash	800,375	876,532
	1,556,502	1,782,094

Current liabilities

Trade and other payables	474,079	531,757
Amounts due to customers for contract work	3,067	988
Provisions	40,270	45,876
Deferred income	88,965	84,567
Amount due to a related company	7	978
Amounts due to associates	1,452	4,558
Convertible preferred shares	98,318	104,101
Secured bank borrowings	-	29,000
Income tax payable	27,194	18,364
	<u>733,352</u>	<u>820,189</u>

Net current assets

	<u>823,150</u>	<u>961,905</u>
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Total assets less current liabilities

	<u>3,875,350</u>	<u>3,958,779</u>
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Non-current liabilities

Other payables	5,582	5,582
Provisions	1,722	1,702
Deferred tax liabilities	122,270	123,218
	<u>129,574</u>	<u>130,502</u>

Net assets

	<u><u>3,745,776</u></u>	<u><u>3,828,277</u></u>
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Capital and reserves

Share capital	36,481	36,571
Share premium and reserves	<u>3,755,086</u>	<u>3,817,258</u>
Equity attributable to owners of the Company	3,791,567	3,853,829
Non-controlling interests	<u>(45,791)</u>	<u>(25,552)</u>
	<u><u>3,745,776</u></u>	<u><u>3,828,277</u></u>