

NetDragon Announces 2017 Second Quarter and Interim Financial Results

Profitability Achieved in 1H 2017
On the back of Record-high Revenue in Q2

(Hong Kong, 30 August 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 second quarter and the first half of 2017. NetDragon's management team will hold a conference call and webcast at 6:30pm Hong Kong time on 30 August 2017 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented: "We are delighted that NetDragon delivered strong results for the second quarter in 2017, achieving record-high revenue of approximately RMB1.1 billion for the quarter. Our games business brought robust growth as we executed our strategy to leverage our successful IP. Our education business also performed exceptionally well as a result of fast growing adoption of interactive classroom technologies, and our market leadership position in both developed and emerging markets where in various major markets we were number one in market share¹."

"Our games business continued its momentum during the second quarter, as evidenced by the popularity of our flagship games Eudemons Online and Heroes Evolved. In addition, mobile versions of our games continued to be a major growth driver for our business with revenues increasing 53.0% year-over-year."

"Our education business delivered a strong performance across the board in the second quarter. While developed markets continued to grow in size, which represents the majority share of our revenue composition, we are excited to see traction in emerging markets where as a global market leader in learning technologies, we have become the leading candidate in these markets to capitalize on many sizable revenue opportunities. We are also on track with our online monetization strategy and we expect to launch our Social Commerce platform by the end of 2017. In China, our signed sales order in the second quarter is over five times higher than the same quarter last year, as we begin to win broad based adoption of our products by schools and teachers. We have also scaled to an installed user base of over 450,000 teachers for our flagship software 101 Education PPT to date, including 220,000 new teachers in the second quarter alone. We are expecting an acceleration of user acquisition and user engagement as the new academic year starts in September."

"We are glad to announce that NetDragon achieved a turnaround in its profitability, with profit attributable to owners of the Company at RMB71.4 million for the second quarter and RMB25.8 million for the first half. Lastly, we are excited to have JumpStart join the NetDragon family. With this strategic acquisition, we are looking forward to capitalizing on the unique opportunities in IPs and B2C user acquisition."

2017 Q2 Financial Highlights

- Revenue was RMB1,061.8 million, representing a 34.9% increase year-over-year.
- Revenue from the games business was RMB403.9 million, representing 38.0% of the Company's total revenue, registered a 36.1% increase year-over-year.

¹ Based on report issued by Futuresource dated 14 August 2017, incorporating actual Q2 shipment volumes of the Company.

- Revenue from the education business was RMB636.3 million, representing 59.9% of the Company's total revenue, registered a 32.5% increase year-over-year.
- Gross profit was RMB587.5 million, representing a 34.3% increase year-over-year.
- Core segmental profit² from the games business was RMB165.3 million, representing a 66.4% increase year-over-year.
- Core segmental loss² from the education business was RMB31.4 million, representing a 64.2% decrease year-over-year.
- Non-GAAP operating profit³ was RMB93.3 million, representing a 231.9% increase year-over-year.

2017 First Half Financial Highlights

- Revenue was RMB1,775.3 million, representing a 30.7% increase year-over-year.
- Revenue from the games business was RMB802.4 million, representing a 38.2% increase year-over-year.
- Revenue from the education business was RMB934.1 million, representing a 22.9% increase year-over-year.
- Gross profit was RMB1,033.3 million, representing a 31.8% increase year-over-year.
- Core segmental profit² from the games business was RMB334.1 million, representing a 72.5% increase year-over-year.
- Core segmental loss² from the education business was RMB189.2 million, representing a 14.4% decrease year-over-year.
- Profit attributable to owners of the Company was RMB25.8 million as compared to loss attributable to owners of the Company of RMB42.9 million for the same period last year.
- The company declared an interim dividend of HK\$ 0.10 per share for the six months ended 30 June 2017.

2017 Q2 Gaming Operational Metrics

- Monthly Average Revenue Per User ("ARPU") was approximately RMB410, a 49.1% increase year-over-year.
- Average Concurrent Users ("ACU") were approximately 325,000, an 8.2% decrease year-over-year.
- Peak Concurrent Users ("PCU") were approximately 701,000, an 11.3% decrease year-over-year.
- Active Paying Accounts ("APA") were approximately 618,000, a 4.8% increase year-over-year.

² Core segmental profit (loss) figures are derived from the Company's reported segmental profit (loss) figures (presented in accordance with Hong Kong Financial Reporting Standard 8 ("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 convertible preferred shares.

³ To supplement the consolidated results of the Company prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of non-GAAP operating profit measure is provided solely to enhance the overall understanding of the Company's current financial performance. The non-GAAP operating profit measure is not expressly permitted measure under HKFRSs and may not be comparable to similarly titled measure for other companies. The non-GAAP operating profit of the Company excludes share-based payments expense and amortisation of intangible assets arising on acquisition of subsidiaries.

Segmental Financial Highlights

	FY2017Q2		FY2017Q1		FY2016Q2	
(RMB '000)	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	403,904	636,306	398,501	297,771	296,697	480,107
Gross Profit	377,898	204,609	377,275	68,563	279,736	155,803
Gross Margin	93.6%	32.2%	94.7%	23.0%	94.3%	32.5%
Core Segmental Profit (Loss) ²	165,349	(31,425)	168,761	(157,799)	99,356	(87,695)
Segmental Operating Expenses ⁴						
- Research and development	(103,633)	(94,831)	(99,527)	(88,960)	(82,060)	(91,390)
- Selling and marketing	(47,480)	(97,713)	(49,638)	(94,338)	(37,732)	(95,323)
- Administrative	(68,038)	(32,698)	(65,871)	(36,104)	(66,586)	(39,090)

Games Business

The Company's games business continued to achieve a robust performance in the second quarter, with revenue at RMB403.9 million, a 36.1% increase year-over-year, and core segmental profit at RMB165.3 million, a 66.4% increase year-over-year. This is the third consecutive quarter that the Company has registered over 20% year-over-year revenue growth for its games business. In addition, ARPU and APA strengthened with a year-over-year increase of 49.1% and 4.8% respectively. We have also seen a strong increase in our Monthly Active Users ("MAU") and Daily Active Users ("DAU") of 44.9% and 16.8%, respectively, in Q2 on a year-over-year basis.

Eudemons Online continues to perform exceptionally well. The newly launched expansion pack for Eudemons Online received excellent feedback in the market with pre-paid monthly income reaching over RMB100 million in May and June. The continued strong performance of Eudemons Online PC and pocket version over the last several quarters demonstrates the effectiveness of our user engagement strategy that has raised the revenue level of this IP to a new level. Not only is this sustainable, but it is expected to increase significantly as more new games are being developed under the Eudemons brand. Heroes Evolved, our other flagship IP, also continued to receive very positive recognition by our players. Its pocket version is ranked as the 'top three downloaded mobile game' on Tencent Open Platform for seven consecutive months with over six million Monthly Active Users (MAU).

Looking forward, we are excited by our strong pipeline of new game launches in the second half of the year including our new Eudemons mobile game developed in partnership with Kingsoft and Tiger Knight (which was officially launched in August on the Tencent Wgame Platform in China). Heroes Evolved pocket version is also expected to start ramping up revenue in the third quarter as we move to capitalize on the significant user base of this game that we have developed since its official launch in December 2016.

⁴ Segmental operating expenses exclude unallocated expenses/income such as depreciation, amortisation 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.

Education Business

Our international education business delivered a remarkable second quarter with revenue at RMB590.1 million, representing a 30.0% increase year-over-year over an already strong second quarter of 2016. This is on the back of global market share gains across major markets including the US, UK, Eastern & Central Europe and Central Asia. We are also seeing a fast-growing addressable market fuelled by rapid advancement of interactive classroom technologies in both developed and emerging markets. As a result of operating leverage and more streamlined operations, our international education business achieved a significant turnaround with operating profitability in both the second quarter and the first half of this year. Second quarter operating profits of Promethean, our international education subsidiary, was RMB78.6 million.

In China, our domestic education business continued to pick up momentum as our second quarter revenue increased by 77.1% year over year. Our China sales backlog, representing signed sales order to be delivered to or validated by the customers, was over RMB230 million as of 30 June 2017. Our user acquisition strategy is on track as we pushed teacher training programs nationwide across a large span of cities and provinces. This resulted in an installed user base of over 450,000 teachers for our flagship software 101 Education PPT to date, which includes 220,000 new teachers in the second quarter alone. As we prepare for the start of the academic year in September, we expect to see an acceleration of new user acquisition in the coming months that paves the way towards our goal of achieving one million teacher acquisition by the end of 2017. We also expect to see user engagement pick up after the new school year starts.

Looking forward, we expect our momentum to continue in both international and domestic education markets. Specifically, we expect to see increasing traction in the emerging markets in the second half of the year. In addition, we will continue to move forward our social commerce monetization strategy and expect to launch this platform in the fourth quarter of this year, which will lead to significant online revenue next year. As for the domestic market, we will continue to scale our revenue and online users in the second half of the year.

Last but not least, in July, the Company successfully acquired JumpStart – a Los Angeles based provider of educational products that specializes in creative and educational games for K-12 children. JumpStart has built very impressive and popular educational games that are extremely valuable additions to NetDragon's product offerings. This strategic acquisition will open up tremendous opportunities for the Company to offer innovative and world-class learning products to our users globally.

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Management Conference Call

NetDragon will host a management conference call with a PowerPoint presentation and webcast to review its second quarter and interim financial results on 30 August 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 "2017 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 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.

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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 2017**

	Three Months Ended		Six Months Ended	
	30/06/2017 (Unaudited) RMB '000	31/03/2017 (Unaudited) RMB '000	30/06/2017 (Unaudited) RMB '000	30/06/2016 (Unaudited) RMB '000
Revenue	1,061,808	713,442	1,775,250	1,358,544
Cost of revenue	(474,332)	(267,639)	(741,971)	(574,673)
Gross profit	587,476	445,803	1,033,279	783,871
Other income and gains	26,999	10,526	37,525	78,762
Selling and marketing expenses	(146,452)	(146,038)	(292,490)	(256,991)
Administrative expenses	(172,600)	(172,253)	(344,853)	(353,725)
Development costs	(202,445)	(193,806)	(396,251)	(347,162)
Other expenses and losses	(12,647)	(4,559)	(17,206)	(23,418)
Share of losses of associates	(211)	(195)	(406)	(530)
Share of loss of a joint venture	(46)	(7)	(53)	-
Operating profit (loss)	80,074	(60,529)	19,545	(119,193)
Interest income on pledged bank deposits	706	-	706	-
Exchange gain (loss) on secured bank borrowings and convertible preferred shares	1,630	249	1,879	(4,149)
Net gain on convertible preferred shares	1,744	5,218	6,962	95,841
Net (loss) gain on disposal of held-for-trading investment	(36)	71	35	-
Net gain on held-for-trading investment	-	23	23	1,010
Finance costs	(2,538)	(2,189)	(4,727)	(4,768)
Profit (loss) before taxation	81,580	(57,157)	24,423	(31,259)
Taxation	(15,599)	(15,911)	(31,510)	(12,974)
Profit (loss) for the period	65,981	(73,068)	(7,087)	(44,233)

**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	8,427	3,435	11,862	(45,250)
Fair value (loss) gain on available-for-sale investment	(8,328)	388	(7,940)	(3,448)
Other comprehensive income (expense) for the period	99	3,823	3,922	(48,698)
Total comprehensive income (expense) for the period	66,080	(69,245)	(3,165)	(92,931)
Profit (loss) for the period attributable to:				
-Owners of the Company	71,443	(45,666)	25,777	(42,894)
-Non-controlling interests	(5,462)	(27,402)	(32,864)	(1,339)
	65,981	(73,068)	(7,087)	(44,233)
Total comprehensive income (expense) attributable to:				
-Owners of the Company	69,921	(42,425)	27,496	(85,004)
-Non-controlling interests	(3,841)	(26,820)	(30,661)	(7,927)
	66,080	(69,245)	(3,165)	(92,931)
	RMB cents	RMB cents	RMB cents	RMB cents
Earnings (loss) per share				
-Basic	14.40	(9.20)	5.20	(8.68)
-Diluted	14.40	(9.20)	5.20	(8.68)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Non-current assets		
Property, plant and equipment	1,346,782	1,284,494
Prepaid lease payments	506,068	509,018
Investment properties	60,147	57,964
Intangible assets	708,402	722,498
Interests in associates	16,377	16,783
Interest in a joint venture	17,947	—
Available-for-sale investments	20,304	17,883
Loan receivables	21,188	20,477
Trade receivables	7,741	11,490
Deposits made for acquisition of property, plant and equipment	14,210	14,585
Goodwill	345,508	338,237
Deferred tax assets	3,571	3,445
	<u>3,068,245</u>	<u>2,996,874</u>
Current assets		
Properties under development	73,265	55,429
Inventories	103,452	125,285
Prepaid lease payments	6,003	6,003
Loan receivables	12,523	13,712
Trade receivables	545,621	351,693
Amounts due from customers for contract work	10,634	10,640
Other receivables, prepayments and deposits	160,516	121,564
Amounts due from related companies	1,748	1,704
Amounts due from associates	1,875	8,561
Tax recoverable	393	3,281
Held-for-trading investment	-	151,783
Restricted bank balance	13,611	-
Pledged bank deposits	145,486	411
Bank deposit	-	55,496
Bank balances and cash	817,892	876,532
	<u>1,893,019</u>	<u>1,782,094</u>
Assets classified as held for sale	11,238	-
	<u>1,904,257</u>	<u>1,782,094</u>

