

NetDragon Announces 2017 Third Quarter Financial Results
Consecutive Profitable Quarters Achieved
Mobile Gaming Revenue More Than Doubled
Education Revenue Increased by Over 50%

(Hong Kong, 6 December 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 third quarter ended 30 September 2017. NetDragon's management team will hold a conference call and webcast at 6:30pm Hong Kong time on 6 December 2017 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented: "We are delighted that NetDragon recorded profitability for consecutive quarters, supported by the robust performance in both gaming and education businesses. The gaming business continued its outstanding performance in the third quarter on the back of our flagship game Eudemons Online that has reached another quarter of historical record-high revenue. Our mobile games also delivered phenomenal growth, with mobile gaming revenue increasing 124.1% year-over-year. The pocket versions of our two flagship IPs, Eudemons Online and Heroes Evolved, continued to perform exceptionally well during the quarter. Meanwhile, our pipeline of new games is stronger than ever, and for that we are confident in the growth trajectory of our gaming business going forward."

"We are equally excited by the strong progress of our education business. We are pleased to announce that the installed user base of our flagship platform 101 Education PPT in China has reached our end-of-year target of one million K-12 teachers as of end of November. Our tender sales traction in China also reached a record quarter as we achieved RMB150 million of contracted sales in Q3 alone. Outside of China, our international business had another remarkable quarter as overseas revenue increased by 56.2% year-over-year, as a result of very strong growth in both the U.S. and emerging markets as Promethean further solidifies our global market share¹ leadership in deployment of K-12 interactive classroom technologies."

2017 Q3 Financial Highlights

- Revenue was RMB1,060.6 million, representing a 52.7% increase year-over-year.
- Revenue from the gaming business was RMB440.2 million, representing 41.5% of the Company's total revenue, registered a 53.6% increase year-over-year.
- Revenue from the education business was RMB595.9 million, representing 56.2% of the Company's total revenue, registered a 51.9% increase year-over-year.
- Gross profit was RMB584.9 million, representing a 51.9% increase year-over-year.
- Core segmental profit² from the gaming business was RMB179.1 million, representing a 123.5% increase year-over-year.
- Core segmental loss² from the education business was RMB107.9 million, representing a 1.5% increase year-over-year

¹ Based on report issued by Futuresource dated 13 November 2017, incorporating actual third quarter shipment volumes of the Company and excluding China.

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.

- Non-GAAP operating profit³ was RMB12.6 million, compared to non-GAAP operating loss³ of RMB88.9 million for the same period last year.
- Profit attributable to owners of the Company was RMB5.1 million, compared to loss attributable to owners of the Company of RMB65.4 million for the same period last year.

2017 Q3 Gaming Operational Metrics

- Monthly Average Revenue Per User (“ARPU”) was approximately RMB405, a 51.7% increase year-over-year.
- Average Concurrent Users (“ACU”) were approximately 362,000, a 3.7% increase year-over-year.
- Peak Concurrent Users (“PCU”) were approximately 727,000, a 1.5% decrease year-over-year.
- Active Paying Accounts (“APA”) were approximately 740,000, a 38.4% increase year-over-year.

Segmental Financial Highlights

(RMB '000)	2017Q3		2017Q2		2016Q3	
	Gaming	Education	Gaming	Education	Gaming	Education
Revenue	440,229	595,935	403,904	636,306	286,559	392,220
Gross Profit	409,997	168,175	377,898	204,609	266,002	115,436
Gross Margin	93.1%	28.2%	93.6%	32.2%	92.8%	29.4%
Core Segmental Profit (Loss) ²	179,061	(107,850)	165,349	(31,425)	80,110	(106,301)
Segmental Operating Expenses ⁴						
- Research and development	(112,645)	(107,346)	(103,633)	(94,831)	(91,283)	(95,717)
- Selling and marketing	(53,838)	(107,673)	(47,480)	(97,713)	(39,223)	(81,561)
- Administrative	(70,675)	(42,753)	(68,038)	(32,698)	(62,046)	(32,569)

Gaming Business

The Company’s gaming business delivered another exceptional quarter with record high revenue at RMB440.2 million in the third quarter, registering a 53.6% increase year-over-year, and core segmental profit at RMB179.1 million, a 123.5% increase year-over-year. The robust performance was attributable to overall revenue growth of games under our flagship IPs, Eudemons Online and Heroes Evolved, as well as increasing contribution from mobile games as mobile gaming revenue increased by 124.1% year-over-year. We achieved our revenue growth with a broad-based uptick of

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.

⁴ Segmental operating expenses exclude unallocated expenses such as depreciation and amortisation 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.

key operating metrics including 51.7% increase in ARPU and 38.4% increase in APA on a year-over-year basis. In addition, Monthly Active Users (“MAU”) and Daily Active Users (“DAU”) also increased significantly by 86.7% and 19.0% respectively on a year-over-year basis.

Our dual strategy of IP value maximization and mobile extension continued to pay dividends. Our flagship IP Eudemons Online continued to produce outstanding result as the PC version delivered six consecutive months of monthly gross billings over RMB100 million, while the pocket version reached a record high monthly gross billing in September and was ranked as the ‘top ten most outstanding app by billings’ on Tencent Open Platform in August and September. A new Eudemons Online browser-based game with IP licensed by the Company also went open-beta launch in September with monthly gross billing of RMB27.1 million. Our long-awaited flagship Eudemons Online Mobile (launched in partnership with Kingsoft) was officially launched in October and produced a gross billing of over RMB100 million in the first month of operation.

Heroes Evolved, another flagship IP, continued to expand on its user base as MAU under this IP increased by 33.4% quarter-over-quarter and 140.9% year-over-year. Mobile monetization gained significant traction in the quarter as revenue of the pocket version increased by 181.3% quarter-over-quarter. To date, this game has already been downloaded by over 100 million players, and has been ranked as the ‘top three downloaded mobile games’ on Tencent Open Platform for nine consecutive months.

Looking forward, we expect momentum to carry on as we build on this initial success of our IP and mobile strategy with an exciting pipeline of new games which we are confident will bring our gaming business to another level.

Education Business

Our education business delivered another strong quarter both in China and in overseas markets. Promethean, our international education subsidiary, achieved revenue of RMB525.9 million, a 56.2% increase year-over-year, and a second consecutive quarter of operating profitability. This is on the back of our proven success in major markets including the U.S., Europe, Middle East and Central Asia, as we remain as the K-12 market share leader in international markets¹.

We have seen the U.S. market pick up significantly in Q3 as total K-12 market shipment volumes in the U.S. increased by 48.8%¹ year-over-year, while Promethean’s shipment volume exceeded the market growth by growing 107.2% year-over-year. As the K-12 space continues to embrace interactive classroom technologies with increasing traction, we expect this trend will bode well for (1) higher adoption by emerging countries as they follow the lead of the U.S., and (2) increasing need of internet platforms to work with the hardware, which plays into the strength of NetDragon with our internet and platform capabilities.

We continued to see fruitful results along the Belt and Road Initiatives as revenue from our partnership in the City of Moscow materialized during the year as we prepare ourselves for upcoming opportunities. Meanwhile, we also see significant opportunities in other emerging countries, particularly in Turkey and Malaysia. Overall, our progress in the emerging markets is strong and on track.

In China, our contracted sales reached a record-high of RMB150 million in the third quarter as we won over 100 tenders in the quarter, more than three times year-over-year. As of end of Q3, our China sales backlog, representing signed sales order to be delivered to or validated by the customers, was RMB344 million. We believe the increasing traction that we are seeing in our sales orders is a testament to the market receptiveness of our software products.

As at the end of November, we achieved our year-end goal of reaching one million installed teachers of our flagship software platform 101 Education PPT. This is on the back of our successful user acquisition strategy of launching teacher training programs nationwide across a large span of cities and provinces, and working closely with education bureaus. With this critical mass of installed teachers in China, we will focus on developing our engagement with these teachers and the stickiness of our platform, as we aim to make 101 Education PPT the platform of choice for delivery of digital classroom and content distribution in China.

Looking forward, with our leading interactive classroom and internet platform technologies, we expect the rapid digitization of classrooms around the world will be conducive to not only our revenue growth, but also adoption of our software platform which we aim to become the world's largest learning community.

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Management Conference Call

NetDragon will host a management conference call with a PowerPoint presentation and webcast to review its third quarter financial results on 6 December 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 "3Q 2017 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 ENDED 30 SEPTEMBER 2017

	Three Months Ended		
	30/09/2017	30/06/2017	30/09/2016
	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000
Revenue	1,060,602	1,061,808	694,544
Cost of revenue	(475,716)	(474,332)	(309,579)
Gross profit	584,886	587,476	384,965
Other income and gains	9,315	26,999	12,406
Selling and marketing expenses	(163,252)	(146,452)	(122,819)
Administrative expenses	(186,571)	(172,600)	(172,074)
Development costs	(224,661)	(202,445)	(191,788)
Other expenses and losses	(20,222)	(12,647)	(16,041)
Share of losses of associates	(144)	(211)	(184)
Share of loss of a joint venture	(98)	(46)	-
Operating (loss) profit	(747)	80,074	(105,535)
Interest income on pledged bank deposits	925	706	-
Exchange (loss) gain on secured bank borrowings and convertible preferred shares	(84)	1,630	(5,733)
Net gain on convertible preferred shares	5,545	1,744	37,276
Net loss on disposal of held-for-trading investment	-	(36)	-
Net gain on held-for-trading investment	-	-	5,656
Finance costs	(2,804)	(2,538)	(1,927)
Profit (loss) before taxation	2,835	81,580	(70,263)
Taxation	(13,370)	(15,599)	(4,082)
(Loss) profit for the period	(10,535)	65,981	(74,345)

Other comprehensive (expense) income 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	1,953	8,427	(5,359)
Fair value loss on available-for-sale investment	(3,110)	(8,328)	(3,131)
Other comprehensive income (expense) for the period	(1,157)	99	(8,490)
Total comprehensive (expense) income for the period	(11,692)	66,080	(82,835)
Profit (loss) for the period attributable to:			
- Owners of the Company	5,094	71,443	(65,435)
- Non-controlling interests	(15,629)	(5,462)	(8,910)
	(10,535)	65,981	(74,345)
Total comprehensive income (expense) attributable to:			
- Owners of the Company	3,173	69,921	(73,095)
- Non-controlling interests	(14,865)	(3,841)	(9,740)
	(11,692)	66,080	(82,835)
	RMB cents	RMB cents	RMB cents
Earnings (loss) per share			
- Basic	1.02	14.40	(13.18)
- Diluted	1.02	14.40	(13.18)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017

	30 September 2017	31 December 2016
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,355,154	1,284,494
Prepaid lease payments	526,352	509,018
Investment properties	62,280	57,964
Intangible assets	757,838	722,498
Interests in associates	16,233	16,783
Interest in a joint venture	17,849	-
Available-for-sale investments	17,194	17,883
Loan receivables	19,867	20,477
Trade receivables	7,741	11,490
Deposits made for acquisition of property, plant and equipment	5,554	14,585
Goodwill	381,253	338,237
Deferred tax assets	3,591	3,445
	3,170,906	2,996,874
Current assets		
Properties under development	108,544	55,429
Property held for sale	11,009	-
Inventories	139,219	125,285
Prepaid lease payments	6,303	6,003
Loan receivables	5,273	13,712
Trade receivables	468,174	351,693
Amounts due from customers for contract work	15,226	10,640
Other receivables, prepayments and deposits	228,188	121,564
Amounts due from related companies	1,770	1,704
Amounts due from associates	1,879	8,561
Amount due from a joint venture	69	-
Tax recoverable	393	3,281
Held-for-trading investment	-	151,783

Restricted bank balance	13,611	-
Pledged bank deposits	145,280	411
Bank deposit	-	55,496
Bank balances and cash	<u>1,743,471</u>	<u>876,532</u>
	2,888,409	1,782,094
Current liabilities		
Trade and other payables	824,090	531,757
Amounts due to customers for contract work	2,148	988
Provisions	45,183	45,876
Deferred income	99,409	84,567
Promissory note	46,966	-
Amount due to a related company	10	978
Amounts due to associates	1,827	4,558
Convertible preferred shares	87,091	104,101
Secured bank borrowings	141,234	29,000
Income tax payable	31,856	18,364
	<u>1,279,814</u>	<u>820,189</u>
Net current assets	1,608,595	961,905
Total assets less current liabilities	4,779,501	3,958,779
Non-current liabilities		
Other payables	2,732	5,582
Provisions	893	1,702
Secured bank borrowings	32,351	-
Deferred tax liabilities	144,241	123,218
	<u>180,217</u>	<u>130,502</u>
Net assets	4,599,284	3,828,277
Capital and reserves		
Share capital	39,201	36,571
Share premium and reserves	<u>4,610,240</u>	<u>3,817,258</u>
Equity attributable to owners of the Company	4,649,441	3,853,829
Non-controlling interests	<u>(50,157)</u>	<u>(25,552)</u>
	4,599,284	3,828,277