

NetDragon Announces Fourth Quarter and Fiscal Year 2017 Financial Results

Returned to Non-GAAP Full Year Profitability

(Hong Kong, 22 March 2018) 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 2017. NetDragon's management team will hold a conference call and webcast at 6:30pm Hong Kong time on 22 March 2018 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented: "We are excited that NetDragon's endeavour in building online communities has started to bear fruits in 2017. Our full year results spoke for itself as not only did we return to non-GAAP profitability, we also experienced substantially improved operating cash flow as it reversed to positive RMB336.9 million from negative RMB270.3 million last year, supported by the robust performance in both gaming and education businesses. Our gaming business had a record year as its revenue increased by 38.2% year-over-year to a historical high RMB1,672.9 million. Mobile games were the major growth driver, with revenue increasing 92.2% year-over-year, as the mobile versions of our two flagship IPs, Eudemons Online and Heroes Evolved, were well-received by gamers during the year."

"We are also pleased by the remarkable growth of our education business. Our education business recorded revenue of RMB2,105.3 million for the year, up 37.9% year-over-year. In overseas markets, our revenue increased by 32.0% year-over-year to RMB1,775.8 million on the back of solid performance in both the US and emerging markets as Promethean further solidified its global market leading position¹ in K12 interactive classroom technologies. In China, our revenue surged by 82.2% year-over-year to RMB329.5 million as we scaled quickly across major provinces and cities. On the user front, the installed base of our flagship platform 101 Education PPT in China exceeded 1.2 million as at the end of 2017, as a result of our aggressive rollout throughout the year. Looking forward, we expect to see substantial increase in our number of users as we continue to execute our strategies such that we will be one step closer to becoming the largest learning community globally."

2017 Q4 Financial Highlights

- Revenue was RMB1,031.8 million, representing a 39.4% increase year-over-year.
- Revenue from the gaming business was RMB430.2 million, representing 41.7% of the Company's total revenue, registered a 25.5% increase year-over-year.
- Revenue from the education business was RMB575.3 million, representing 55.8% of the Company's total revenue, registered a 53.8% increase year-over-year.
- Gross profit was RMB561.6 million, representing a 33.4% increase year-over-year.
- Core segmental profit² from the gaming business was RMB161.9 million, representing a 65.4% increase year-over-year.
- Core segmental loss² from the education business was RMB126.3 million, representing a 20.0% decrease year-over-year.

¹ Based on report issued by Futuresource Consulting dated 19 February 2018, incorporating actual shipment volumes (excluding China) of the Company.

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 RMB8.1 million, compared to non-GAAP operating loss³ of RMB67.2 million for the same period last year.
- Loss attributable to owners of the Company was RMB51.7 million, compared to loss attributable to owners of the Company of RMB94.4 million for the same period last year.

Fiscal Year 2017 Financial Highlights

- Revenue was RMB3,867.6 million, representing a 38.5% increase year-over-year.
- Revenue from the gaming business was RMB1,672.9 million, representing 43.3% of the Group's total revenue, registered a 38.2% increase year-over-year.
- Revenue from the education business was RMB2,105.3 million, representing 54.4% of the Group's total revenue, registered a 37.9% increase year-over-year.
- Gross profit was RMB2,179.8 million, representing a 37.1% increase year-over-year.
- Core segmental profit² from the games business was RMB675.1 million, representing a 81.6% increase year-over-year.
- Core segmental loss² from the education business was RMB423.3 million, representing a 12.7% decrease year-over-year.
- Non-GAAP operating profit³ was RMB68.3 million, a significant turnaround compared to non-GAAP operating loss³ of RMB239.8 million for last year.
- Loss attributable to owners of the Company was RMB20.8 million, compared to loss attributable to owners of the Company of RMB202.7 million for last year.
- 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.

2017 Q4 Gaming Operational Metrics

- Monthly Average Revenue Per User ("ARPU") was approximately RMB424, a 14.9% increase year-over-year.
- Average Concurrent Users ("ACU") were approximately 335,000, which was flat year-over-year.
- Peak Concurrent Users ("PCU") were approximately 762,000, a 3.0% increase year-over-year.
- Active Paying Accounts ("APA") were approximately 752,000, a 27.2% increase year-over-year.
- Monthly Active Users ("MAU") were approximately 13,321,000, a 37.8% increase year-over-year.

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 (loss) 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, amortisation of intangible assets arising on acquisition of subsidiaries, impairment loss on available-for-sale investment, write off of inventories, impairment loss on property held for trade, impairment of property, plant and equipment and the extraordinary provision in relation to discontinued product.

Segmental Financial Highlights

2017 Q4

| | 2017 Q4 | | 2017 Q3 | | 2016 Q4 | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| (RMB '000) | Gaming | Education | Gaming | Education | Gaming | Education |
| Revenue | 430,224 | 575,278 | 440,229 | 595,935 | 342,711 | 374,029 |
| Gross Profit | 400,189 | 148,328 | 409,997 | 168,175 | 317,256 | 101,256 |
| Gross Margin | 93.0% | 25.8% | 93.1% | 28.2% | 92.6% | 27.1% |
| Core Segmental Profit (Loss) ² | 161,946 | (126,266) | 179,061 | (107,850) | 97,898 | (157,737) |
| Segmental Operating Expenses ⁴ | | | | | | |
| - Research and development | (124,006) | (95,779) | (112,645) | (107,346) | (107,229) | (109,949) |
| - Selling and marketing | (49,015) | (115,668) | (53,838) | (107,673) | (44,623) | (93,710) |
| - Administrative | (73,111) | (47,601) | (70,675) | (42,753) | (73,307) | (41,584) |

Full Year 2017

| | FY2017 | | FY2016 | | Variance | |
|---|-----------|-----------|-----------|-----------|----------|-----------|
| (RMB '000) | Gaming | Education | Gaming | Education | Gaming | Education |
| Revenue | 1,672,858 | 2,105,290 | 1,210,034 | 1,526,298 | 38.2% | 37.9% |
| Gross Profit | 1,565,359 | 589,675 | 1,127,851 | 455,431 | 38.8% | 29.5% |
| Gross Margin | 93.6% | 28.0% | 93.2% | 29.8% | 0.4% | -1.8% |
| Core Segmental Profit (Loss) ² | 675,117 | (423,340) | 371,678 | (485,176) | 81.6% | -12.7% |
| Segmental Operating Expenses ⁴ | | | | | | |
| - Research and development | (439,811) | (386,916) | (357,916) | (384,904) | 22.9% | 0.5% |
| - Selling and marketing | (199,971) | (415,392) | (155,098) | (358,431) | 28.9% | 15.9% |
| - Administrative | (277,695) | (159,156) | (262,403) | (152,195) | 5.8% | 4.6% |

Gaming Business

In the fourth quarter, the Company's gaming business revenue grew by 25.5% year-over-year to RMB430.2 million, primarily driven by the strong 85.2% year-over-year growth in mobile gaming revenue. On the other hand, we saw a broad-based uptick of key operating metrics including 14.9% increase in ARPU, 27.2% increase in APA and 37.8% increase in MAU on a year-over-year basis.

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.

On a full year basis, our gaming business revenue increased by 38.2% year-over-year. The above-industry growth rate was driven by our dual strategy of IP value maximization and mobile extension. This strategy has led to thirteen consecutive growing quarters on a year-over-year basis for our gaming revenue. During the year, our flagship IP Eudemons Online had another record year as its revenue reached a historical high of RMB1,367.3 million, up 48.2% year-over-year, on the back of new launches, new gaming modes as well as refined monetization strategies. In particular, the PC version delivered eight months of monthly gross billings over RMB100 million during the year, 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. With respect to new launches, our long-awaited flagship Eudemons Online Mobile (in partnership with Kingsoft) was officially launched in October 2017 and produced a gross billing of over RMB100 million in the first month of operation. The game did not disappoint as it was ranked as one of the "top five most outstanding app by billings" on Tencent Open Platform for four consecutive months from October 2017 to January 2018.

Heroes Evolved, another flagship IP, sustained its strong momentum. Following our rapid user ramp-up of the pocket version in the first half of the year, we accelerated monetization in the second half as the revenue of the pocket version more than doubled in the second half of 2017 versus the first half. Since launch in December 2016, this game has been downloaded by over 150 million players and was ranked as one of the "top three downloaded mobile games" on Tencent Open Platform for nine consecutive months in 2017.

Looking forward, the Company will continue to maximize our IP values by introducing new games and new game-play features. After launching several new games in 2017, we expect to launch multiple new games in 2018, with focus on mobile games. Finally, we will leverage our cutting-edge VR and AR technologies in order to bring unique gaming experience to gamers.

Education Business

For the fourth quarter of 2017, revenue from the education business was RMB575.3 million, a 53.8% increase year-over-year. In overseas markets, we recorded revenue of RMB380.4 million during the quarter, up 31.4% from the same period of last year. We solidified our number one international market share leadership position¹ in K12 interactive technologies as we continued to gain market share in our major markets, particularly in Americas and EMEA regions.

Our traction along One Belt One Road countries remained strong. On top of materializing the phase one order of the City of Moscow during the year, we are pleased to be the chosen partner again for the second phase of the multi-year Moscow Online School project. The second phase of the project is set to equip over 13,000 classrooms throughout the City of Moscow with our interactive learning technologies, a substantial increase compared with 7,600 classrooms in phase one. In addition, we are also the front runner of several multi-phase tenders in other emerging countries as they embrace the latest education technologies. In particular, we continue to see Turkey and Malaysia presenting significant revenue opportunities. Most importantly, Promethean achieved positive EBITDA of RMB53.0 million in 2017, a remarkable turnaround from the negative EBITDA of RMB50.6 million in 2016, as a result of our ongoing effort to drive revenue growth and rationalize costs aggressively following our acquisition in November 2015.

In China, we recorded revenue of RMB194.9 million in Q4 2017, more than doubled from the same period of last year, as a big portion of our contracted sales in previous quarters were recognized during the quarter. As at the end of Q4 2017, our China sales backlog, representing signed sales orders to be delivered to or validated by the customers, was RMB279.3 million. Of which, RMB99.8 million of contracted sales covering 31 provinces or cities were signed during the fourth quarter. We believe the rising traction is a validation of our products in the domestic market.

On the other hand, we are also pleased to see the tremendous progress in terms of user scaling. As at the end of 2017, we had over 1.2 million installations for our flagship software platform 101 Education PPT in China. This is on the back of our successful user acquisition strategy which adopts various ways of scaling users, including launching teacher training programs nationwide, hosting courseware contests in targeted cities and provinces, as well as working closely with education bureaus. With this critical mass of installed teachers in China, we will focus on increasing user engagement and stickiness, as we aim to make 101 Education PPT the platform of choice for delivery of digital classroom and content distribution in China.

In our overseas markets, we currently have an estimated 2 million teachers using our ActivInspire software. We have embarked on a product effort to develop platform capabilities that will augment ActivInspire with features to drive online engagement. These include new teaching tools, use of mobility as well as collaboration and sharing functions. This additional value will offer compelling reasons for the millions of teachers using ActivInspire to move into an online world where they can easily engage with students and create a rich collaborative learning environment. Together with our award-winning ClassFlow™ software, we will bring a truly connected interactive classroom experience to our estimated installed base of over 1.3 million classrooms, therefore enabling teachers and students to interact in an online, collaborative community where we expect to see significant online monetization opportunities. We also launched a closed beta version of our social commerce platform in December 2017 and we received highly positive feedback from teachers.

Looking forward, with our leading interactive classroom technologies and internet platform capabilities, we expect the rapid digitization of classrooms around the world will remain a huge tailwind for our business. We thank all our shareholders for their support and we are excited about the huge potential of value creation for our shareholders in the coming years as we are now one step closer to becoming the world's largest learning community.

- End -

Management Conference Call

NetDragon will host a management conference call with a PowerPoint presentation and webcast to review its fourth quarter and annual results ended December 31, 2017 on 22 March 2018 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 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.

For investor enquiries, please contact:

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE THREE MONTHS ENDED 31 DECEMBER 2017

| | Three Months Ended | | |
|--|---------------------------|-------------|-------------|
| | 31/12/2017 | 30/09/2017 | 31/12/2016 |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 1,031,771 | 1,060,602 | 740,015 |
| Cost of revenue | (470,173) | (475,716) | (318,982) |
| Gross profit | 561,598 | 584,886 | 421,033 |
| Other income and gains | 49,125 | 9,315 | 77,795 |
| Selling and marketing expenses | (168,974) | (163,252) | (139,852) |
| Administrative expenses | (203,136) | (186,571) | (195,168) |
| Development costs | (223,164) | (224,661) | (220,982) |
| Other expenses and losses | (63,553) | (20,222) | (27,620) |
| Share of losses of associates | (272) | (144) | (148) |
| Share of loss of a joint venture | (416) | (98) | - |
| Provision for product impairment | - | - | (77,774) |
| Operating loss | (48,792) | (747) | (162,716) |
| Interest income on pledged bank deposits | 927 | 925 | - |
| Exchange gain (loss) on pledged bank deposit, secured bank borrowings and convertible preferred shares | 1,455 | (84) | (11,942) |
| Net (loss) gain on convertible preferred shares | (9,698) | 5,545 | 60,240 |
| Net gain on disposal of held-for-trading investment | - | - | 253 |
| Net gain on held-for-trading investment | - | - | 8,880 |
| Finance costs | (2,878) | (2,804) | (1,955) |
| (Loss) profit before taxation | (58,986) | 2,835 | (107,240) |
| Taxation | (12,329) | (13,370) | (10,966) |
| Loss for the period | (71,315) | (10,535) | (118,206) |

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 | (4,641) | 1,953 | (32,058) |
| Fair value loss on available-for-sale investment | (6,335) | (3,110) | (4,723) |
| Release of reserve upon impairment of available-for-sale investment | 28,687 | - | - |
| Other comprehensive income (expense) for the period | 17,711 | (1,157) | (36,781) |
| Total comprehensive expense for the period | (53,604) | (11,692) | (154,987) |

(Loss) profit for the period attributable to:

| | | | |
|-----------------------------|-----------------|----------|-----------|
| - Owners of the Company | (51,714) | 5,094 | (94,413) |
| - Non-controlling interests | (19,601) | (15,629) | (23,793) |
| | (71,315) | (10,535) | (118,206) |

Total comprehensive (expense) income attributable
to:

| | | | |
|-----------------------------|-----------------|----------|-----------|
| - Owners of the Company | (33,837) | 3,173 | (126,292) |
| - Non-controlling interests | (19,767) | (14,865) | (28,695) |
| | (53,604) | (11,692) | (154,987) |

| | RMB cents | RMB cents | RMB cents |
|----------------------------------|------------------|-----------|-----------|
| (Loss) earnings per share | | | |
| - Basic | (9.66) | 1.02 | (19.01) |
| - Diluted | (9.66) | 1.02 | (19.01) |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

| | 31 December 2017 | 31 December 2016 |
|---|------------------|------------------|
| | (Audited) | (Audited) |
| | RMB'000 | RMB'000 |
| Non-current assets | | |
| Property, plant and equipment | 1,373,026 | 1,284,494 |
| Prepaid lease payments | 515,299 | 509,018 |
| Investment properties | 64,532 | 57,964 |
| Intangible assets | 715,578 | 722,498 |
| Interests in associates | 15,961 | 16,783 |
| Interests in a joint venture | 17,433 | - |
| Available-for-sale investments | 10,859 | 17,883 |
| Loan receivables | 18,410 | 20,477 |
| Trade receivables | 3,912 | 11,490 |
| Restricted bank deposit | 5,000 | - |
| Deposits made for acquisition of property, plant and equipment | 7,441 | 14,585 |
| Goodwill | 388,675 | 338,237 |
| Deferred tax assets | 4,160 | 3,445 |
| | <u>3,140,286</u> | <u>2,996,874</u> |
| Current assets | | |
| Properties under development | 160,141 | 55,429 |
| Property held for sale | 9,213 | - |
| Inventories | 106,430 | 125,285 |
| Prepaid lease payments | 9,866 | 6,003 |
| Loan receivables | 4,662 | 13,712 |
| Trade receivables | 380,072 | 351,693 |
| Amounts due from customers for contract work | 16,522 | 10,640 |
| Other receivables, prepayments and deposits | 255,948 | 121,564 |
| Amount due from a related company | 1,704 | 1,704 |
| Amounts due from associates | 5,264 | 8,561 |
| Amount due from a joint venture | 159 | - |
| Tax recoverable | 1,497 | 3,281 |
| Held-for-trading investment | - | 151,783 |

| | | |
|--|------------------|------------------|
| Restricted bank balances | 20,332 | - |
| Pledged bank deposits | 145,084 | 411 |
| Bank deposits | - | 55,496 |
| Bank balances and cash | 1,578,477 | 876,532 |
| | 2,695,371 | 1,782,094 |
| Current liabilities | | |
| Trade and other payables | 680,736 | 531,757 |
| Amounts due to customers for contract work | 1,691 | 988 |
| Provisions | 41,246 | 45,876 |
| Deferred income | 95,531 | 84,567 |
| Amount due to a related company | 1,400 | 978 |
| Amounts due to associates | 305 | 4,558 |
| Secured bank borrowings | 146,132 | 29,000 |
| Promissory note | 46,226 | - |
| Income tax payable | 23,339 | 18,364 |
| | 1,036,606 | 716,088 |
| Net current assets | 1,658,765 | 1,066,006 |
| Total assets less current liabilities | 4,799,051 | 4,062,880 |
| Non-current liabilities | | |
| Other payables | 2,693 | 5,582 |
| Provisions | - | 1,702 |
| Convertible preferred shares | 95,249 | 104,101 |
| Secured bank borrowings | 86,582 | - |
| Deferred tax liabilities | 130,466 | 123,218 |
| | 314,990 | 234,603 |
| Net assets | 4,484,061 | 3,828,277 |
| Capital and reserves | | |
| Share capital | 39,094 | 36,571 |
| Share premium and reserves | 4,510,073 | 3,817,258 |
| Equity attributable to owners of the Company | 4,549,167 | 3,853,829 |
| Non-controlling interests | (65,106) | (25,552) |
| | 4,484,061 | 3,828,277 |