

NetDragon Announces 2018 Interim Financial Results

Net Profit Surged more than Sixfold

(Hong Kong, 29 August 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 first half of 2018. NetDragon's management team will host an analyst briefing session at 10:00am Hong Kong time at Nathan Room, Lower Lobby in Conrad Hong Kong on 30 August 2018 to discuss the results and recent business developments.

Mr. Dejian Liu, Chairman of NetDragon, commented: "We are excited that NetDragon delivered an excellent first half in 2018. Our revenue reached another semi-annual record-high at RMB2,469.9 million with 39.1% year-over-year growth, while profit attributable to shareholders surged by more than six times to RMB200.7 million from RMB25.8 million last year. These remarkable numbers were underpinned by our strong execution in both gaming and education segments."

"Our gaming business maintained its solid growth momentum in the first half. Mobile games were a major growth driver, with revenue increasing 53.4% year-over-year. PC games also performed well with 25.0% year-over-year growth. We also made great progress in development of our new games as our current pipeline remains very strong. As we continue to execute our strategy to maximize IP values, we are also looking to accelerate our growth further by expanding our IP portfolio, both organically and by working with our partners."

"We are also excited by the tremendous growth of our education business. In overseas, our interactive classroom product offerings continued to expand their penetration rapidly in both developed and emerging countries. As a result, our subsidiary Promethean continued to grow its revenue at a rate faster than the market, and in doing so has maintained its global market leader position¹ in K-12 interactive classroom technologies during the period. We are also pleased to complete the acquisition of Edmodo in May. With Edmodo joining our family, we are in a unique position to offer a complete product portfolio that covers pre-class, in-class and after-class learning environments, anywhere and at any time. More importantly, our online community has accumulated more than 90 million of registered users, laying solid foundations for future monetization."

"In China, our revenue rose by 35.4% year-over-year to RMB105.6 million as we continued to drive increasing adoption of our software platforms. On the user front, the installed base of our flagship platform 101 Education PPT in China exceeded 2.3 million in June 2018, almost doubled from over 1.2 million at the end of 2017, with coverage of 31 provinces across China."

2018 First Half Financial Highlights

- Revenue was RMB2,469.9 million, representing a 39.1% increase year-over-year.
- Revenue from the gaming business was RMB1,039.3 million, representing 42.1% of the Company's total revenue, registered a 29.5% increase year-over-year.
- Revenue from the education business was RMB1,384.1 million, representing 56.0% of the Company's total revenue, registered a 48.2% increase year-over-year.
- Gross profit was RMB1,402.1 million, representing a 35.7% increase year-over-year.

¹ Based on report issued by Futuresource Consulting dated 13 August 2018, incorporating actual shipment volumes (excluding China) of the Company.

- Core segmental profit² from the gaming business was RMB524.4 million, representing a 56.9% increase year-over-year.
- Core segmental loss² from the education business was RMB158.7 million, representing a 16.2% decrease year-over-year.
- Non-GAAP operating profit³ was RMB249.3 million, representing a 422.9% increase year-over-year.
- Profit attributable to owners of the Company was RMB200.7 million, representing a 678.8% increase year-over-year.
- The company declared an interim dividend of HK\$ 0.10 per share for the six months ended 30 June 2018.

Segmental Financial Highlights

| (RMB '000) | Six months ended 30 June 2018 | | Six months ended 30 June 2017 | | Variance | |
|---|----------------------------------|------------------|----------------------------------|-----------|----------|-----------|
| | Gaming | Education | Gaming | Education | Gaming | Education |
| Revenue | 1,039,346 | 1,384,074 | 802,405 | 934,077 | 29.5% | 48.2% |
| Gross Profit | 978,499 | 421,499 | 755,173 | 273,172 | 29.6% | 54.3% |
| Gross Margin | 94.1% | 30.5% | 94.1% | 29.2% | - | +1.3 ppts |
| Core Segmental Profit (Loss) ² | 524,376 | (158,650) | 334,110 | (189,224) | 56.9% | -16.2% |
| Segmental Operating Expenses | | | | | | |
| - Research and development | (222,443) | (214,525) | (203,160) | (183,791) | 9.5% | 16.7% |
| - Selling and marketing | (102,609) | (224,161) | (97,118) | (192,051) | 5.7% | 16.7% |
| - Administrative | (143,806) | (113,000) | (133,909) | (68,802) | 7.4% | 64.2% |

Gaming Business

Our gaming business revenue grew by 29.5% year-over-year to a record-high RMB1,039.3 million in the first half. Mobile games continued to perform very well with 53.4% year-over-year growth. PC games also remained robust with 25.0% year-over-year revenue growth. With our strong top line growth, gaming's core segmental profit jumped by 56.9% year-over-year.

Our flagship IP Eudemons was a significant contributor to our growth in the first half with 37.8% year-over-year increase in revenue. In particular, its PC version recorded monthly gross billings over RMB100 million in five out of six months during the period, while the newly launched mobile version continued to be well received.

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 (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.

Heroes Evolved, another flagship IP saw revenue of its pocket version more than double in the first half year-over-year as we stepped up our monetization initiative. 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, we will continue to drive revenue and profit growth by maximizing our IP values with new games and new game-play features, as well as expanding our IP portfolio. In particular, we are in discussion to license external IP to augment our own IP portfolio. Our pipeline, on the other hand, remains robust, and we expect to launch multiple new games with different genres in the second half of 2018.

Education Business

For the first half of 2018, revenue from the education business was RMB1,384.1 million, up 48.2% year-over-year. We recorded revenue of RMB1,278.5 million and RMB105.6 million in overseas and China respectively, up 49.3% and 35.4% year-over-year. Core segmental loss declined by 16.2% year-over-year.

During the period, we continued to excel in emerging markets. Not only that we materialized the sizable second phase tender in the City of Moscow, we also laid the foundation for entering the huge African market by gaining new footprints in countries like Egypt and Nigeria. In developed markets, we sustained our growth momentum in various major countries, including the U.S., the UK, Germany and France. As such, we solidified our number one international market share leadership position¹ in K-12 interactive technologies as we continued to gain market share across regions. Underpinned by our solid performance, Promethean’s operating profit surged by more than ten times year-over-year to RMB114.4 million in the first half of 2018 as a result of our ongoing effort to drive revenue growth and rationalize costs aggressively.

We also made tremendous progress in building our learning community with our acquisition of Edmodo which was completed during the Period. To date, the total users of Edmodo have exceeded 90 million in over 400,000 schools in more than 190 countries. Combining Edmodo with Promethean’s interactive learning technologies, our comprehensive product portfolio will support the full learning process, in and out of the classroom, including lesson preparation, lesson delivery, student collaboration, homework features, teacher-student-parent communications, education content marketplace and resources sharing. By capturing all the major use cases in K-12 learning, our complete product offerings will be in a unique position to drive significant user traffic, with monetization opportunities to follow.

In China, we recorded revenue of RMB105.6 million in the first half, up 35.4% from the same period of last year, as we continued to expand across different regions. As at 30 June 2018, our China sales backlog, representing signed sales orders to be delivered to or validated by the customers, was RMB347.0 million.

We are also pleased to see the continuous traction in terms of user scaling. As at 30 June 2018, we had over 2.3 million installations for our flagship software platform 101 Education PPT in China, almost doubled from over 1.2 million as at the end of 2017. Last but not least, we made strong progress in our product development as well as integrating new and exciting technologies into our offering, including the world’s first AI Teaching Assistant which we launched during the period.

Our vision to revolutionize education with advanced technologies remains firm and clear. We possess the best-in-class learning products and technologies across our group and in the near future, our strategy to integrate all these pieces will be vital to our success. In particular, our product portfolio enables users to prepare interesting courseware, deliver interactive lessons, streamline assignments, share and purchase resources, as well as communicate with one another using advanced technologies.

Without question, our learning community with integrated functionalities is shaping the future of education.

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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:

NetDragon Websoft Holdings Limited

Ms. Maggie Zhou

Senior Director of Investor Relations

Tel.: +852 2850 7266 / +86 591 8754 3120

Email: maggie@nd.com.cn

Website: ir.netdragon.com

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

| | Six months ended 30 June | |
|--|--------------------------------------|--------------------------------------|
| | 2018 | 2017 |
| | (Unaudited) RMB'000 | (Unaudited) RMB'000 |
| Revenue | 2,469,941 | 1,775,250 |
| Cost of revenue | (1,067,810) | (741,971) |
| Gross profit | 1,402,131 | 1,033,279 |
| Other income and gains | 39,817 | 37,525 |
| Impairment loss, net of reversal | (13) | (96) |
| Selling and marketing expenses | (332,584) | (292,490) |
| Administrative expenses | (409,546) | (344,853) |
| Development costs | (442,233) | (396,251) |
| Other expenses and losses | (45,430) | (17,110) |
| Share of losses of associates | (265) | (406) |
| Share of loss of a joint venture | (198) | (53) |
| Operating profit | 211,679 | 19,545 |
| Interest income on pledged bank deposits | 1,755 | 706 |
| Exchange (loss) gain on secured bank borrowings and convertible preferred shares | (4,172) | 1,879 |
| Net gain on convertible preferred shares | 26,953 | 6,962 |
| Net loss on disposal of property held for sale | (68) | - |
| Net fair value gain on held-for-trading investment | - | 58 |
| Finance costs | (5,358) | (4,727) |
| Profit before taxation | 230,789 | 24,423 |
| Taxation | (53,047) | (31,510) |
| Profit (loss) for the period | 177,742 | (7,087) |

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

(3,109) 11,862

Fair value loss on available-for-sale investment

- (7,940)

Items that will not be reclassified to profit or loss:

Fair value loss on equity instrument at fair
value through other comprehensive income

(232) -

Other comprehensive (expense) income for the period

(3,341) 3,922

Total comprehensive income (expense) for
the period

174,401 (3,165)

Profit (loss) for the period attributable to:

- Owners of the Company

200,740 25,777

- Non-controlling interests

(22,998) (32,864)

177,742 (7,087)

Total comprehensive income (expense)
attributable to:

- Owners of the Company

198,055 27,496

- Non-controlling interests

(23,654) (30,661)

174,401 (3,165)

RMB cents

RMB cents

Earnings per share

- Basic

37.63 5.20

- Diluted

37.55 5.20

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

| | 30 June 2018 | 31 December 2017 |
|---|---------------------|------------------|
| | (Unaudited) | (Audited) |
| | RMB'000 | RMB'000 |
| Non-current assets | | |
| Property, plant and equipment | 1,552,420 | 1,373,026 |
| Prepaid lease payments | 359,902 | 515,299 |
| Investment properties | 74,361 | 64,532 |
| Intangible assets | 814,341 | 715,578 |
| Interests in associates | 15,696 | 15,961 |
| Interest in a joint venture | 17,235 | 17,433 |
| Available-for-sale investments | - | 10,859 |
| Equity instruments at fair value through other comprehensive income | 10,627 | - |
| Loan receivables | 15,786 | 18,410 |
| Trade receivables | - | 3,912 |
| Pledged bank deposit | 8,555 | - |
| Restricted bank deposit | - | 5,000 |
| Deposits made for acquisition of property, plant and equipment | 10,546 | 7,441 |
| Goodwill | 453,063 | 388,675 |
| Deferred tax assets | 4,108 | 4,160 |
| | 3,336,640 | 3,140,286 |
| Current assets | | |
| Properties under development | 379,922 | 160,141 |
| Property held for sale | - | 9,213 |
| Inventories | 127,532 | 106,430 |
| Prepaid lease payments | 6,636 | 9,866 |
| Loan receivables | 13,050 | 4,662 |
| Trade receivables | 945,816 | 380,072 |
| Amounts due from customers for contract work | - | 16,522 |
| Other receivables, prepayments and deposits | 349,108 | 255,948 |

| | 30 June 2018 | 31 December 2017 |
|--|---------------------|------------------|
| | (Unaudited) | (Audited) |
| | RMB'000 | RMB'000 |
| Contract assets | 17,893 | - |
| Amounts due from related companies | 1,757 | 1,704 |
| Amounts due from associates | 1,953 | 5,264 |
| Amount due from a joint venture | 356 | 159 |
| Tax recoverable | 393 | 1,497 |
| Pledged bank deposits | 147,315 | 145,084 |
| Restricted bank balances | 15,089 | 20,332 |
| Bank balances and cash | 1,074,087 | 1,578,477 |
| | 3,080,907 | 2,695,371 |
| Current liabilities | | |
| Trade and other payables | 830,354 | 680,736 |
| Contract liabilities | 240,976 | - |
| Amounts due to customers for contract work | - | 1,691 |
| Provisions | 49,576 | 41,246 |
| Deferred income | - | 95,531 |
| Amount due to a related company | 2 | 1,400 |
| Amounts due to associates | 580 | 305 |
| Secured bank borrowings | 277,919 | 146,132 |
| Promissory note | - | 46,226 |
| Income tax payable | 50,054 | 23,339 |
| | 1,449,461 | 1,036,606 |
| Net current assets | 1,631,446 | 1,658,765 |
| Total assets less current liabilities | 4,968,086 | 4,799,051 |

| | 30 June 2018 | 31 December 2017 |
|--|-------------------------|------------------|
| | (Unaudited) | (Audited) |
| | RMB'000 | RMB'000 |
| Non-current liabilities | | |
| Other payables | 1,722 | 2,693 |
| Convertible preferred shares | 136,518 | 95,249 |
| Secured bank borrowings | 93,968 | 86,582 |
| Deferred tax liabilities | 164,814 | 130,466 |
| | <u>397,022</u> | <u>314,990</u> |
| Net assets | <u>4,571,064</u> | <u>4,484,061</u> |
| Capital and reserves | | |
| Share capital | 39,029 | 39,094 |
| Share premium and reserves | 4,619,481 | 4,510,073 |
| | <u>4,658,510</u> | <u>4,549,167</u> |
| Equity attributable to owners of the Company | 4,658,510 | 4,549,167 |
| Non-controlling interests | (87,446) | (65,106) |
| | <u>4,571,064</u> | <u>4,484,061</u> |