

[For Immediate Release]

NetDragon Websoft Inc. Announces First Quarter 2014 Financial Results

Operating Profit up 86.7% Year on Year; Online Education Business on Track

[May 28, 2014, HONG KONG] – **NetDragon Websoft Inc.** ("NetDragon"; Stock Code: 777), a leading developer and operator of online games and mobile Internet platforms in China, today announced its financial results for the first quarter ended March 31, 2014. A conference call and webcast is scheduled for May 28, 2014 at 8:00 pm Hong Kong time (8:00 am U.S. Eastern Time) to review the Company's financial results and recent business developments.

First Quarter 2014 Financial and Operational Highlights

- Revenue was RMB217.1 million, a decrease of 5.2% over the fourth quarter of 2013 ("QoQ"), and an increase of 2.4% over the first quarter of 2013 ("YoY");
- Gross profit was RMB196.0 million, a decrease of 4.8% QoQ and an increase of 1.9% YoY;
- Operation profit was RMB114.4 million, an increase of 86.7% YoY;
- Non-GAAP operating profit¹ was RMB121.1 million, an increase of 968.7% QoQ and a decrease of 31.0% YoY;
- Profit attributable to owners of the Company was RMB79.7 million, a decrease of 98.6% QoQ and a decrease of 28.7% YoY;
- Non-GAAP profit attributable to owners of the Company was RMB85.0 million, a decrease of 37.6% YoY;
- Profit for the period from continuing operations was RMB77.8 million, an increase of 44.4% YoY;
- Non-GAAP profit for the period from continuing and discontinued operations was RMB83.1 million, a decrease of 41.0% YoY;
- Basic earnings per share was RMB15.70 cents, diluted earnings per share was RMB15.61 cents ;
- Peak concurrent users ("PCU") for online games were 472,000, a decrease of 1.0% QoQ and an increase of 6.1% YoY;
- Average concurrent users ("ACU") for online games were 239,000, a decrease of 10.2% QoQ and an increase of 0.8% YoY.

Mr. Liu Dejian, Chairman and Executive Director of NetDragon, commented: "For the first quarter of 2014, total revenue reached RMB217.1million, up 2.4% year on year. For the online game business, the performance of the flagship games remained stable. We introduced several new expansion packs for existing titles to consolidate our domestic market. Also, we strengthened our development in overseas markets in order to cope with the increasingly fierce competition by launching the new expansion pack for English and Arabic versions of "Conquer Online" to meet the new demand of players for game experiences on the target markets. As a result, revenue from overseas game business grew 23.2% quarter on quarter in the first quarter. Meanwhile, we continued to develop our pipelines of quality online games. "Caliber of Spirit", NetDragon's first magic-style sports MOBA webgame containing science fiction and fantasy elements, achieved more than 150,000 peak concurrent players with 560,000 daily active players and more than 3,000,000 monthly active players during the testing in May, evidencing the game's popularity.

¹ See "Non-GAAP Financial Measures" section for more details on the reasons for presenting these measures

We will maintain the stable operation of our existing games, while release more high-quality games and expand our product portfolio to ensure the sustainable growth of our game business.”

“Regarding the mobile games business, we strengthened our R&D standards after considering the explosive growth of China’s mobile games market since 2014. We put more effort on the mobile games in testing including “Blade & Sword”, “Fatal Fight” and “Waku & Maou” in order to stand out from others in such a competitive market after the formal release. In addition, the mobile version of “Eudemons Online”, our trial version for migrating players from PC to the mobile platform, is continuously improved and is expected to become a new hit for us in the mobile games market based on the sizable players’ base and popularities in the MMORPG segment. Leveraging the wealth of experience we have accumulated over years in operating the overseas markets, we strengthened our effort in development of the overseas mobile game markets. “The Pirate” has gained popularity among the Arabic players in the Middle East and North Africa following the release of an update in Arabic during the first quarter. In addition to the online game business, NetDragon will continue its expansion into both domestic and overseas mobile game markets. We will take the advantages of our competencies and resource to increase the revenue from mobile games and cater the demands of players worldwide in the mobile era.”

“For the online education business, we made a steady progress in the first quarter. We will drive on the full implementation of related key strategies with the recent focus on K-12 education. Our agreement with Foxteq and Vision Knight Capital (China) Fund I has given us the advantages in technology, fund and resource for the development of the flagship tablet project designed for students. With the contributions on the R&D, manufacturing and operation by NetDragon and its partners as well as the state-of-the-art design, strict production standard and built-in education resource, we believed that the tablet will provide the users with new interactive learning experience following the formal launch. Meanwhile, the development of a national remote vocational public service system is also under way. We signed the letters of intent with several well established vocational education providers, allowing us to have the first mover advantage in the market. Looking forward, we plan to establish a national lifelong education system based on the mobile Internet platform and complemented by our product series in K-12, vocational, non-academic credential and lifelong education, based on the idea of “gaming, mobile and big data” and the independently developed core technology such as 3D engine. Our management is highly confident the success of NetDragon’s online education business.”

First Quarter 2014 Business Highlights

Games

- MMO Series

- The English and Arabic versions of “Conquer Online” launched a new expansion pack (“EP”) “Wrath of the Trojan” on 20 March 2014 in a move to cater the demands of overseas players for new game experiences, further raised the game’s popularity in overseas markets.
- “Way of the Five” rolled out a new EP “Demon is coming” in March 2014, with many new classes and properties significantly increased the game play ability.
- “Tiger Knight”, NetDragon’s self-developed new action strategy online game, was released on the well-known Steam platform for testing in January 2014 and has been widely recommended by the platform’s community of players since then.

-Mobile Games

- “Blade & Sword”, NetDragon’s self-developed 2.5D martial arts role-play mobile game, carried out the non-file-deleted internal testing in January 2014.
- “Fatal Fight”, NetDragon’s self-developed landscape-based combat mobile game, released an update in January, with contents optimized during the internal testing. The game will carry out its open beta testing in the second quarter of 2014.
- “Waku & Maou”, NetDragon’s strategy mobile game combining the features of both card and landscape turn-based games, conducted the first closed beta testing in March 2014. The game will be formally released in the second half of this year.
- The Arabic iOS version of “The Pirate”, NetDragon’s first voyage role-play turn-based mobile game developed in-house, ranked Top 1 in the daily download list of RPG games in 21 regions across the Middle East and North Africa. The newly update in first quarter 2014 highly refined the game and raised the popularity of the game among the target players.

Education business

- On January 24, 2014, NetDragon BVI entered into an agreement with Foxteq and Vision Knight Capital (China) Fund I, whereby, the three companies plan to establish a wholly foreign-owned enterprise and a limited liability company for the exploration and business operation in the Chinese online education application and related market.
- NetDragon signed the letters of intent with several well established vocational education providers for the development of China’s first national remote vocational public service system. We plan to have a trial testing in Fujian province and expand it across China. The product design of the project has been improved with reference to the Company’s vocational operation in Fujian and a study of the demand by established institution and we plan to launch a new version of the system in the second quarter of this year. In addition, the preparation of a 3D simulation laboratory, a key component of the national remote vocational public service system, has been completed by accumulating the technology, process and human resource. We have the ability to establish a national standard simulation laboratory.

Recent Developments and Business Outlook

Game Business

- MMO Series

- The new EP of “Eudemons Online”, “Dragon Knight - Apocalypse” commenced the official beta testing in April 2014. This expansion pack again enriched the class system within the game, while optimized the game’s balance.
- The Spanish and French versions of “Conquer Online” will launch a new EP “Wrath of the Trojan” in the second quarter. The Company expects to increase the market share of the flagship products in overseas markets via the release of more EPs in multi-languages coupled with the enhanced efforts in R&D and operations.
- “Caliber of Spirit”, a 3D MOBA next-generation webpage developed in-house, will commence official beta testing in the second half of 2014. To date, the game achieved more than 150,000 peak concurrent players, with 560,000 daily active players and more than 3,000,000 monthly active players, evidencing the game’s popularity among the players. Furthermore, the development of “Caliber of Spirit” in multi-languages and mobile versions is under way and the upcoming versions are expected to bring remarkable game experiences to players worldwide.

-Mobile Games

- “The Celestial Saga”, NetDragon’s 2.5D action role-play mobile game, launched a new EP called “Dark Side Rises” in April.
- “Crazy Horde”, NetDragon’s self-developed ARPG mobile game, launched the first EP in May.
- The mobile version of “Eudemons Online” will carry out its first open beta testing in May and is scheduled for official launch in the second half of 2014. The mobile game developed by NetDragon's core development team with a focus on feeding phantom beasts interspersed with PK gang fights is expected to become a new hit in the mobile games market based on high popularity in the MMORPG market for years.
- “Hero Cut”, an original leisure action mobile game, is scheduled for testing in the second quarter.
- “The Pirate”, NetDragon’s first voyage role-play turn-based mobile game developed in-house, will launch the Arabic Android version in June 2014 following the success of Arabic iOS version launched in December 2013.

Education Business

- The Company will continue to drive its efforts for the target of establishing a national lifelong education system based on a mobile platform and complemented by the product series in K-12, vocational, non-academic credential and lifelong education.
- With its core strength in the Internet world as the basis of the prominent Internet DNA and experience in the development and operation of mobile products, NetDragon plans to make the launch of the pilot tablet especially designed for students in the second half of 2014, combining the power of the world's leading 3C electronic product manufacturers in hardware production with the advantages of smart tablets together with education software and other educational resource.
- As for industry-specific continuing education, vocational education and examination, the Company will integrate the mobile Internet, hardware and software with games as part of a reform of the education ecosystem. The Company will provide a customized learning plan based on the cloud storage data platform catering to the specific demands of students.
- Fuzhou Software Technology Vocational College will continue to strengthen its efforts in digital teaching based on established strategies, leveraging its advantages as a result of cultural exchanges between Fujian and Taiwan and consolidating the partnerships in education with Taiwanese organizations in a move to rapidly set up an integrated learning-research-production mutual growth model in line with its ecosystem.

Others

- NetDragon was awarded as one of the top 30 cultural companies in China during the Sixth Top 30 Cultural Companies Event in May. It is the first time for NetDragon to receive the award and it recognizes the Company's leading role in terms of operating scale, social benefit and exploration into new business.

Financial Highlights:

RMB('000)	1Q 2014	4Q 2013	1Q 2013	QoQ(%)	YoY(%)
Revenue from continuing operations	217,091	229,001	211,994	(5.2%)	2.4%
Gross profit from continuing operations	196,007	205,931	192,328	(4.8%)	1.9%
Gross profit margin from continuing operations	90.3%	89.9%	90.7%	0.4%	(0.4%)
Operating profit (loss) from continuing operations	114,415	(1,707)	61,276	N/A	86.7%
Non-GAAP operating profit from continuing and discontinued operations	121,146	11,336	175,456	968.7%	(31.0%)
Profit (loss) from continuing operations	77,753	(2,732)	53,856	N/A	44.4%
Non-GAAP profit (loss) from continuing and discontinued operations	83,104	(5,421)	140,840	N/A	(41.0%)
Profit from continuing and discontinued operations attributable to owners of the Company	79,662	5,807,145	111,787	(98.6%)	(28.7%)
Non-GAAP profit (loss) from continuing and discontinued operations attributable to owners of the Company	85,013	(7,507)	136,245	N/A	(37.6%)
Basic earnings (loss) per share from continuing operations (RMB cents)	15.70	(0.95)	10.71	N/A	46.6%
Diluted earnings (loss) per share from continuing operations(RMB cents)	15.61	(0.95)	10.63	N/A	46.8%

Metrics

Online Games

	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012
PCU	472,000	477,000	510,000	468,000	445,000	521,000	525,000
ACU	239,000	266,000	270,000	255,000	237,000	287,000	281,000

Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRSs, the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. These non-GAAP measures are not expressly permitted measures under HKFRSs and may not be comparable to similarly titled measures for other companies. The non-GAAP financial measures of the Group exclude share-based payments expense, interest income on pledged bank deposit, exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares, net gain (loss) on derivative financial instruments, finance costs and profit on disposal of subsidiaries (net of related income tax).

Management Conference Call

NetDragon will host a management conference call and webcast to review its first quarter 2014 financial results ended March 31, 2014 on Wednesday, May 28, 2014, at 8pm Hong Kong time.

Details of the live conference call are as follows:

Time: 8:00 PM Beijing / Hong Kong Time / 8:00 AM Eastern Standard Time, May 28, 2014

International Toll	65-6723-9381
US Toll Free	1-866-519-4004
Hong Kong Toll Free	800-930-346
China Toll Free (for fixed line users)	800-8190-121
China Toll Free (for mobile users)	400-6208-038
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://ir.netdragon.com/investor/ir_events.shtml. Participants in the live webcast should visit the aforementioned website 10 minutes prior to the call, then click on the icon for "1Q 2014 Results Conference Call" and follow the registration instructions.

About NetDragon

NetDragon Websoft Inc. (HKSE: 0777) is a leading innovator and creative force in China's online gaming and mobile Internet industries. Established in 1999, we are a vertically integrated developer & operator of MMORPGs and a cutting-edge R&D powerhouse. We launched our first self-made online game "Monster & Me" in 2002, followed by multiple titles including "Eudemons Online", "Conquer Online" and "Zero Online". Meanwhile, leveraging our years of experience in R&D and operation of games, we have successively launched a variety of mobile games, including "Warring States", "War of Gods" and "Crazy Horde". We are also China's pioneer in overseas expansion, directly operating titles in overseas markets since 2003 in English, Spanish, Arabic and other languages. NetDragon has proven track record in incubating online gaming and mobile Internet projects over the years, including the No. 1 Chinese online game portal - 17173.com, and the China's biggest and most influential smartphone service platform - 91 Wireless.

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 FOR THE THREE MONTHS ENDED 31 MARCH 2014**

	Three Months Ended		
	31/03/2014	31/12/2013	31/03/2013
	(Unaudited)	(Unaudited)	(Unaudited and restated)
	RMB '000	RMB '000	RMB '000
Continuing operations			
Revenue	217,091	229,001	211,994
Cost of revenue	(21,084)	(23,070)	(19,666)
Gross profit	196,007	205,931	192,328
Other income and gains	47,348	14,687	13,536
Selling and marketing expenses	(29,130)	(31,692)	(23,467)
Administrative expenses	(56,875)	(140,882)	(83,709)
Development costs	(40,954)	(44,469)	(35,489)
Other expenses	(1,893)	(5,290)	(1,920)
Share of (losses) profit of associates	(88)	8	(3)
Operating profit (loss)	114,415	(1,707)	61,276
Interest income on pledged bank deposit	841	840	1,925
Exchange (loss) gain on pledged bank deposit and secured bank borrowing	(4,163)	4,465	(5,786)
Net gain (loss) on derivative financial instrument	4,726	(3,122)	5,656
Gain on disposal of available-for-sale investment	-	5,761	-
Net gain on held for trading investment	1,093	8,756	-
Finance costs	(1,117)	(968)	(1,850)
Profit before taxation	115,795	14,025	61,221
Taxation	(38,042)	(16,757)	(7,365)
Profit (loss) for the period from continuing operations	77,753	(2,732)	53,856
Discontinued operations			
Profit for the period from discontinued operations	-	5,811,963	62,526
Profit for the period	77,753	5,809,231	116,382
Other comprehensive income (expense) for the period, net of income tax			
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss	553	(338)	(112)
Total comprehensive income for the period	78,306	5,808,893	116,270

Profit(loss) for the period attributable to:			
-Owners of the Company	79,662	5,807,145	111,787
-Non-controlling interests	(1,909)	2,086	4,595
	77,753	5,809,231	116,382
Profit (loss) for the period attributable to owners of the Company:			
-from continuing operations	79,662	(4,818)	53,938
-from discontinued operations	-	5,811,963	57,849
Profit for the period attributable to owners of the Company:	79,662	5,807,145	111,787
Loss(profit) for the period attributable to non-controlling interests:			
-from continuing operations	(1,909)	2,086	(82)
-from discontinued operations	-	-	4,677
Loss(profit) for the period attributable to non-controlling interests	(1,909)	2,086	4,595
Total comprehensive income (expense) attributable to:			
-Owners of the Company	80,215	5,806,807	111,675
-Non-controlling interests	(1,909)	2,086	4,595
	78,306	5,808,893	116,270
	RMB cents	RMB cents	RMB cents
Earnings per share			
From continuing and discontinued operations			
-Basic	15.70	1,145.41	22.19
-Diluted	15.61	1,138.30	16.91
From continuing operations			
-Basic	15.70	(0.95)	10.71
-Diluted	15.61	(0.95)	10.63

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2014

	31 March 2014 (Unaudited) RMB '000	31 December 2013 (Audited) RMB '000
Non-current assets		
Property, plant and equipment	653,241	532,684
Prepaid lease payments	185,376	185,819
Investment property	15,861	15,725
Interests in associates	2,219	1,299
Available-for-sale investments	5,000	5,000
Loan receivables	14,111	16,041
Deposits made for acquisition of property, plant and equipment	54,766	16,769
Other receivable	61,521	60,969
Goodwill	12,534	12,534
Deferred tax assets	54	54
	1,004,683	846,894
Current assets		
Prepaid lease payments	2,583	2,583
Loan receivables	461	713
Trade receivables	44,013	41,718
Other receivables, prepayments and deposits	72,835	69,770
Held for trading investment	21,828	20,735
Amounts due from related companies	3,076	4,564
Amounts due from associates	9	-
Other financial asset	1,604	-
Pledged bank deposit	108,340	107,368
Bank deposits	2,983,317	3,051,289
Bank balances and cash	1,339,205	1,304,355
	4,577,271	4,603,095
Current liabilities		
Trade and other payables	274,196	152,837
Deferred income	24,019	26,553
Amount due to an associate	135	-
Secured bank borrowing	109,807	104,672
Other financial liability	-	3,122
Income tax payable	471,361	539,927
	879,518	827,111

Net current assets	3,697,753	3,775,984
Total assets less current liabilities	4,702,436	4,622,878
Non-current liability		
Other payables	2,248	-
Net assets	4,700,188	4,622,878
Capital and reserves		
Share capital	37,665	37,664
Share premium and reserves	4,660,686	4,577,478
Equity attributable to owners of the Company	4,698,351	4,615,142
Non-controlling interests	1,837	7,736
	4,700,188	4,622,878