

NetDragon Announces Second Quarter 2014 Financial Results

Revenues Increase Sequentially and YoY – Strong 2H 2014 Games Pipeline with Education Business Progressing Rapidly

Hong Kong, August 22, 2014 /PRNewswire/ –NetDragon Websoft Inc. (“NetDragon” or “the Company”) (Hong Kong Stock Code: 777), a leading developer and operator of online games and mobile internet platforms in China, today announced its financial results for the second quarter ended June 30, 2014 (“the Period”). A conference call and webcast is scheduled at 8 p.m. Hong Kong Time on Friday, August 22, 2014 to discuss the results and recent business developments.

Second Quarter 2014 Financial Highlights

- Revenue was RMB230.1 million, an increase of 6.0% quarter-over-quarter and 2.7% year-over-year.
- Gross profit was RMB208.2 million, an increase of 6.2% quarter-over-quarter and 1.4% year-over-year.
- Operating profit was RMB76.0 million, a decrease of 33.6% quarter-over-quarter and 18.7% year-over-year.
- Non-GAAP profit¹ for the Period attributable to owners of the Company was RMB70.6 million, a decrease of 16.9% quarter-over-quarter.
- Profit for the Period from continuing operations was RMB63.8 million, a decrease of 17.9% quarter-over-quarter and 18.5% year-over-year.
- Basic and diluted earnings per share were RMB0.1254 and RMB0.1250, respectively.
- The Company has declared an interim dividend of HK\$0.20 per share for the six months ended June 30, 2014, which will be paid to shareholders whose names appear in the Company registry on September 8, 2014.

Second Quarter 2014 Operational Highlights

- Peak concurrent users (“PCU”) for online games were 471,000, a decrease of 0.2% quarter-over-quarter and an increase of 0.6% year-over-year.
- Average concurrent users (“ACU”) for online games were 239,000, flat from the previous quarter and a decrease of 6.3% year-over-year.
- Average revenue per user (“ARPU”) for online games was RMB295, an increase of 3.5% from the previous quarter and 4.2% year-over-year.

“During the second quarter of 2014, we continued to build upon our success over the past few quarters as we made significant progress in our MMORPG and mobile games business and pushed forward with the development of our online education business,” commented Mr. Dejian Liu, Chairman and Executive Director of NetDragon. “Our online gaming business continued its strong operating performance with increases in both revenue and ARPU sequentially and year-over-year as we continue to invest heavily in rejuvenating our current portfolio of games by enhancing gameplay and providing exciting new features to our players. While our flagship online games continue to perform well, the recent boost in popularity of Calibur of Spirit, one of our new pipeline MOBA games that recently achieved daily active users (DAU) and PCU exceeding 1 million and 200,000, respectively, demonstrates our world class game design and development capabilities. As Calibur of Spirit is prepared for its official launch later this year or early next year, we expect it to contribute revenue in a meaningful way as we ramp up marketing and promotional efforts.”

“Our mobile games business also continued to progress smoothly during the quarter. We are now in the final stages of preparation to launch the mobile version of Eudemons Online. We look forward to building upon the success we have seen with Eudemons Online as we work to introduce this proven PC franchise to new players on mobile platforms. We will continue to add to our mobile games pipeline going forward as exciting titles such as Fatal Fighter, Waku & Maou and Blade & Sword enter the final stages of development.”

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

“At the same time, we continue to devote resources towards our MMORPG games as we work to rejuvenate existing titles with expansion packs and in-game events to keep gamers engaged. Salvation of the Shadow, an expansion pack built to enhance the appeal of Eudemons Online, was launched in April 2014. Conquer Online celebrated its 11th anniversary in April 2014 with the addition of new in-game quests as a reward for our player’s loyal support over the years. We are excited to begin beta testing new expansion packs for Way of the Five and Zero Online next quarter. In addition, our new 3D action strategy MMO game, Tiger Knight, is entering the final stages of development.”

“Last but not least, we continue to make meaningful progress in our online education business. We are currently working to develop educational products, content and strategic partnerships for our K-12 educational tablets and our Open Cloud-Based Education Platform. We have already soft launched our educational tablet, which we believe will be a disruptive educational tool for students, teachers and schools, and most importantly, will empower effective learning in a transformational way.”

Second Quarter 2014 Unaudited Financial Results

Revenue

Revenue was RMB230.1 million, an increase of 6.0% from RMB217.1 million in the previous quarter and an increase of 2.7% from RMB224.2 million during the same quarter last year.

Revenue from online games and other business generated from China was RMB203.5 million, an increase of 8.4% from RMB187.7 million in the previous quarter and an increase of 2.6% from RMB198.3 million in the same quarter last year. The increase was mainly due to the strong performance from Eudemons Online’s expansion pack Salvation of the Shadow, which was released in April 2014.

Revenue from online games and other business generated from overseas markets was RMB26.6 million, a decrease of 9.3% from RMB29.4 million in the previous quarter and an increase of 3.1% from RMB25.9 million in the same quarter last year. The decrease was due to the typical seasonality seen in overseas markets during the second quarter of 2014.

Gross profit and gross margin

Gross profit was RMB208.2 million, an increase of 6.2% from RMB196.0 million in the previous quarter and an increase of 1.4% from RMB205.3 million in the same quarter last year. Gross margin was 90.5%, compared with 90.3% in the previous quarter and 91.6% in the same quarter last year.

Operating expenses

Selling and marketing expenses were RMB33.6 million, an increase of 15.3% from RMB29.1 million in the previous quarter and an increase of 45.4% from RMB23.1 million in the same quarter last year. The sequential increase in selling and marketing expenses was mainly due to an increase in advertising and promotional expenses.

Administrative expenses were RMB71.6 million, an increase of 26.0% from RMB56.9 million in the previous quarter and an increase of 32.8% from RMB53.9 million in the same quarter last year. The sequential increase in administrative expenses was mainly due to a general increase in (i) expenses associated with the new Changle office; (ii) new staff costs; and (iii) professional fees and a tax advisory fee associated with the sale of 91 Group.

Development costs were RMB51.7 million, an increase of 26.2% from RMB41.0 million in the previous quarter and an increase of 37.6% from RMB37.6 million in the same quarter last year. The sequential increase in development costs was mainly due to an increase in staffing costs as the Company intensifies its product development efforts.

Other expenses were RMB16.5 million, an increase of 771.2% from RMB1.9 million in the previous quarter and an increase of 945.7% from RMB1.6 million in the same quarter last year. The increase was primarily due to a donation made to Beijing Normal University in support of research and development initiatives which the Company believes will be complementary to its education strategy.

Operating profit

Operating profit from continuing operations was RMB76.0 million, a decrease of 33.6% from RMB114.4 million in the previous quarter and a decrease of 18.7% from RMB93.4 million in the same quarter last year. The sequential and year-over-year decreases were mainly due to (i) an increase in advertising and promotion fees for Eudemons Online and Arab Pirate; (ii) the increase in staff costs as the business expands; (iii) a general increase of administrative expenses associated with the new Changle office and (iv) the aforementioned donation to Beijing Normal University in support of research and development initiatives.

Taxation

Taxation was RMB12.5 million, a decrease of 67.0% from RMB38.0 million in the previous quarter and a decrease of 17.3% from RMB15.2 million in the same quarter last year.

Profit for the Period from continuing operations

Profit for the Period from continuing operations was RMB63.8 million, a decrease of 17.9% from RMB77.8 million in the previous quarter and a decrease of 18.5% from RMB78.3 million in the same quarter last year.

Basic and diluted earnings per share were RMB0.1254 and RMB0.1250, respectively, compared with RMB0.1570 and RMB0.1561, respectively, in the previous quarter, and RMB0.1549 and RMB0.1538, respectively, in the same quarter last year.

Liquidity

As of June 30, 2014, NetDragon had bank deposits, bank balances and cash and pledged bank deposits of approximately RMB3,687.4 million, compared with RMB4,463.0 million as of December 31, 2013. The decrease was primarily due to (i) payments of a PRC withholding income tax on the capital gain derived from the disposal of 91 Group (non-recurring in nature); (ii) capital expenditure on Haixi Animation Creativity City; (iii) payment of the final 2013 dividend and (iv) repurchase of shares during the period.

Second Quarter 2014 Business Developments

Games

The development of Tiger Knight, a 3D action strategy MMO game, is entering the final stages of development with beta-testing expected to begin in the second half of 2014. Calibur of Spirit, the Company's MOBA micro-client game, had daily active users (DAU) and PCU exceeding 1 million and 200,000, respectively, during July 2014, and continues to gain popularity amongst players. In April 2014, NetDragon began beta testing Salvation of the Shadow, an expansion pack for Eudemons Online which includes a new Shadow Knight class. The expansion pack was designed to revitalize and enhance the game to attract new players as well as those who previously played the game. Conquer Online, another of the Company's major franchise games, celebrated its 11th anniversary in April 2014. In April 2014, Spanish and French version of Wrath of the Trojans, an international expansion pack for Conquer Online was also released.

In May 2014, beta testing began for Eudemons Online Pocket Version, a mobile version of Eudemons Online. During the same month, NetDragon launched Blade & Sword, a role playing game based on martial arts. Pre-launch testing of the Company's games continued for Fatal Fighter, Waku & Maou, and Hero Cut. NetDragon also released new expansion packs for most of its mobile games during the quarter. These new expansion packs included ones designed for Celestial Saga, a 2.5D action role play game developed in-house, and Crazy Tribe, an action role playing game. An Arabic Android version of the Company's first turn-based role playing mobile game, The Pirate, was launched in June 2014.

Online and Mobile Education

Product development, content partnership, and strategic partnership discussions for the online and mobile education

business continued to progress during the quarter. The Company has already soft launched its K-12 educational tablet, which is a first beta-version for trial testing purpose as we continue to develop and enhance its functionalities, features and content.

On the vocational education front, earlier this year the Company established a strategic partnership with Open University of China in an effort to create a comprehensive online and mobile learning platform for the vocational education segment in China. NetDragon will act as the developer of the online and mobile platform and will provide content creation services, data analytics, and platform operation services.

In July 2014, NetDragon signed a cooperation agreement with Xinhuanet Co., Ltd. to build a nationwide non-academic public service education platform. The platform will include a broad series of courses covering employee internet training and continuing education for civil servants.

In May 2014, NetDragon donated RMB10 million to Beijing Normal University, China's top ranked educational institution, in support of research and development initiatives which the Company believes will provide significant value-add to its education strategy.

Strategic Merger with Cherrypicks

On June 3, 2014, NetDragon entered into a sale and purchase agreement to acquire Cherrypick's mobile solutions business. Cherrypicks is a leading enterprise in mobile technology and mobile marketing in the Asia Pacific region. NetDragon has agreed to pay an aggregate amount up to US\$30.5 million. The Company believes this strategic merger will add a team of world-class, innovative mobile solutions developers to the mix with the expertise to build cutting edge mobile products for global markets in areas including enterprise software, mobile marketing, mobile commerce and mobile education. The acquisition was completed on July 21, 2014.

Business Outlook

MMORPGs

The Company's new 3D action strategy MMO, Tiger Knight, was identified by the Steam Community as a game of interest during the first half of 2014. The Company is currently in negotiations with Steam to distribute the game as it begins beta testing during the second half of 2014. Calibur of Spirit, the Company's micro-client in-house developed MOBA game, began beta testing and is expected to commence full launch in late 2014 or early 2015. During July 2014, the game achieved over 200,000 peak concurrent users and over 1,000,000 daily active users, demonstrating the traction it has already managed to build. As a result, the Company expects Calibur of Spirit will begin accounting for an increasing amount of revenue contribution in the coming quarters. Calibur of Spirit was regarded as the first micro-client MOBA game in the world. MOBA games are one of the most popular game categories globally, and as such, the Company expects to benefit from its first mover advantage by leveraging brand recognition for Calibur of Spirit to market the mobile and overseas versions which are currently in development. Discussions are under way with publishers to bring this game to the global markets.

For existing online games, the Company will continue to provide gameplay updates and new versions to reinforce player loyalty. NetDragon plans to release brand new expansion packs for its flagship titles, Eudemons Online and Conquer Online, in the second half of 2014 including content enhancements. Expansion packs for Way of the Five and Zero Online will also meet the varied needs of users.

Mobile Games

- The mobile version of Eudemons Online is expected to be officially launched in the third quarter of 2014.
- Blade & Sword, a self-developed 2.5D role playing mobile game based on martial arts, is expected to launch in the second half of 2014.
- Waku & Maou, a strategy-based mobile game with the combined features of card games and turn-based games with scenic landscapes, is expected to begin beta testing in the third quarter of 2014.
- Fatal Fighter, a 2D next generation mobile combat game, will begin beta testing in the second half of 2014 with an Arabic version expected to launch in the fourth quarter of 2014.
- Martial Overlord, a 3D in-house developed martial arts mobile action game, began beta testing in August 2014.

Online and Mobile Education

The K-12 educational tablet's software and hardware will be fine-tuned and enhanced as user feedback is compiled from its soft launch. The educational tablet will provide an adaptive, motivational learning platform where students can learn at their own pace, understand their own learning progress in different subjects and rectify knowledge gaps. It will also provide access to rich educational content, allow for real-time communication with teachers, provide parents and teachers a way to monitor their child's progress and sync seamlessly with the Open Cloud-Based Education Platform. The Company expects to officially launch the tablet in 2015. With its deep experience in the development and operation of games, NetDragon is confident that the educational tablet will empower effective learning for students in a transformational way and generate new revenue streams.

The Company's higher education business will focus on platform and product development, content creation and fostering strategic partnerships for the rest of the year. The Company believes that the education platforms that it is developing for its partners will be part of an online and mobile education ecosystem which, together with the K-12 education tablet and the Open Cloud Education Platform, will become an integrated total-solution online and mobile platform for the learning population at large.

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 and finance costs.

Management Conference Call

NetDragon will host a management conference call and webcast to review its second quarter 2014 financial results ended June 30, 2014 on Friday, August 22, 2014, at 8pm Hong Kong time.

Details of the live conference call are as follows:

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 "2014 Interim 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 mobile internet industries. Established in 1999, we are a vertically integrated, cutting-edge R&D powerhouse with a series of successful track record including building the No. 1 Chinese online gaming portal - 17173.com, being a pioneer in MMORPGs with our renowned self-developed flagship games such as Eudemons Online and Conquer Online gaining huge popularity

amongst players, and creating China's most influential and most popular smartphone app store platforms under the 91 Wireless business unit, before disposing the business to Baidu in 2013 in a landmark transaction which to date is the largest internet M&A transaction in China. In addition, we are China's pioneer in overseas expansion, directly operating game titles in a broad number of countries since 2003 and in over 10 languages internationally. In recent years, we are also becoming a major player in the online and mobile education segment with the vision to leverage our mobile internet technologies and know-how to make learning more fun, motivational and effective compared to the traditional classroom learning model.

For investor enquiries, please contact:

NetDragon Websoft Inc.

Ms. Maggie Zhou

Senior Director of Investor Relations

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

Email: maggie@nd.com.cn; ndir@nd.com.cn

Website: www.nd.com.cn/ir

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2014

	Three Months Ended		Six Months Ended	
	30/06/2014 RMB '000 (Unaudited)	31/03/2014 RMB '000 (Unaudited)	30/06/2014 RMB '000 (Unaudited)	30/06/2013 RMB '000 (Unaudited)
Continuing operations				
Revenue	230,144	217,091	447,235	436,153
Cost of revenue	(21,888)	(21,084)	(42,972)	(38,519)
Gross profit	208,256	196,007	404,263	397,634
Other income and gains	41,255	47,348	88,603	17,817
Selling and marketing expenses	(33,590)	(29,130)	(62,720)	(46,573)
Administrative expenses	(71,645)	(56,875)	(128,520)	(137,650)
Development costs	(51,687)	(40,954)	(92,641)	(73,039)
Other expenses	(16,491)	(1,893)	(18,384)	(3,497)
Share of (losses) profits of associates	(145)	(88)	(233)	17
Operating profit	75,953	114,415	190,368	154,709
Interest income on pledged bank deposit	840	841	1,681	3,821
Exchange (loss) gain on pledged bank deposit and secured bank borrowing	(2,106)	(4,163)	(6,269)	1,897
Net gain (loss) on derivative financial instrument	2,737	4,726	7,463	(2,359)
Net gain on held-for-trading investment	61	1,093	1,154	-
Finance costs	(1,132)	(1,117)	(2,249)	(3,357)
Profit before taxation	76,353	115,795	192,148	154,711
Taxation	(12,547)	(38,042)	(50,589)	(22,533)
Profit for the period from continuing operations	63,806	77,753	141,559	132,178
Discontinued operations				
Profit for the period from discontinued operations	-	-	-	138,492
Profit for the period	63,806	77,753	141,559	270,670
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	29	553	582	(625)
Total comprehensive income for the period	63,835	78,306	142,141	270,045
Profit (loss) for the period attributable to:				
-Owners of the Company	63,830	79,662	143,492	236,401
-Non-controlling interests	(24)	(1,909)	(1,933)	34,269
	63,806	77,753	141,559	270,670
Profit for the period attributable to owners of the Company				
-from continuing operations	63,830	79,662	143,492	132,244
-from discontinued operations	-	-	-	104,157
Profit for the period attributable to owners of the Company	63,830	79,662	143,492	236,401

(Loss) profit for the period attributable to non-controlling interests:				
-from continuing operations	(24)	(1,909)	(1,933)	(66)
-from discontinued operations	-	-	-	34,335
(Loss) profit for the period attributable to non-controlling interests	(24)	(1,909)	(1,933)	34,269
Total comprehensive income (expense) attributable to:				
-Owners of the Company	63,859	80,215	144,074	235,776
-Non-controlling interests	(24)	(1,909)	(1,933)	34,269
	63,835	78,306	142,141	270,045
Earnings per share	RMB cents	RMB cents	RMB cents	RMB cents
From continuing and discontinued operations				
-Basic	12.54	15.70	28.24	46.84
-Diluted	12.50	15.61	28.00	41.12
From continuing operations				
-Basic	12.54	15.70	28.24	26.20
-Diluted	12.50	15.61	28.00	25.85

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	30 June 2014 (Unaudited) RMB '000	31 December 2013 (Audited) RMB '000
Non-current assets		
Property, plant and equipment	689,977	532,684
Prepaid lease payments	379,853	185,819
Investment property	15,875	15,725
Intangible assets	5,772	-
Interests in associates	6,974	1,299
Available-for-sale investments	5,000	5,000
Loan receivables	14,408	16,041
Deposits made for acquisition of property, plant and equipment	18,049	16,769
Other receivable	-	60,969
Goodwill	12,534	12,534
Deferred tax assets	54	54
	1,148,496	846,894
Current assets		
Prepaid lease payments	2,708	2,583
Loan receivables	532	713
Trade receivables	42,477	41,718
Other receivables, prepayments and deposits	154,472	69,770
Held-for-trading investment	21,889	20,735
Amounts due from related companies	3,427	4,564
Amounts due from associates	41	-
Other financial asset	4,341	-
Pledged bank deposit	108,352	107,368
Bank deposits	2,687,829	3,051,289
Bank balances and cash	891,250	1,304,355
	3,917,318	4,603,095
Current liabilities		
Trade and other payables	128,148	152,837
Deferred income	24,943	26,553
Amount due to an associate	151	-
Secured bank borrowing	111,925	104,672
Other financial liability	-	3,122
Income tax payable	129,665	539,927
	394,832	827,111
Net current assets	3,522,486	3,775,984
Total assets less current liabilities	4,670,982	4,622,878

Non-current liabilities

Other payables	2,248	-
----------------	-------	---

Net assets	4,668,734	4,622,878
-------------------	------------------	------------------

Capital and reserves

Share capital	37,638	37,664
---------------	--------	--------

Share premium and reserves	4,628,925	4,577,478
----------------------------	-----------	-----------

Equity attributable to owners of the Company	4,666,563	4,615,142
--	-----------	-----------

Non-controlling interests	2,171	7,736
---------------------------	-------	-------

	4,668,734	4,622,878
--	------------------	------------------