

NetDragon Announces Third Quarter 2014 Financial Results

-Solid YOY Top Line Growth with Strong New Game Pipeline Growth Momentum -Education Ecosystem Product Development on Track

Hong Kong, December 2, 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 third quarter ended September 30, 2014 (“the Period”). A conference call and webcast is scheduled at 8 p.m. Hong Kong Time on Tuesday, December 2, 2014 to discuss the results and recent business developments.

Third quarter 2014 Financial Highlights

- Revenue was RMB232.7 million, an increase of 1.1% quarter-over-quarter and 6.1% year-over-year.
- Gross profit was RMB209.2 million, an increase of 0.4% quarter-over-quarter and 4.8% year-over-year.
- Operating profit was RMB57.7 million, a decrease of 24.1% quarter-over-quarter and an increase of 15.8% year-over-year.
- Non-GAAP¹ profit for the Period attributable to owners of the Company was RMB62.9 million
- Profit for the Period from continuing operations was RMB52.4 million, a decrease of 17.8% quarter-over-quarter and an increase of 41.8% year-over-year.
- Basic and diluted earnings per share were RMB10.31 cents and RMB10.27 cents, respectively.

Third quarter 2014 Operational Highlights²

- Peak concurrent users (“PCU”) for online games were 382,000, a decrease of 18.9% quarter-over-quarter and 25.1% year-over-year.
- Average concurrent users (“ACU”) for online games were 225,000, a decrease of 5.9% quarter-over-quarter and 16.7% year-over-year.
- Average revenue per user (“ARPU”) for online games was RMB299, an increase of 1.4% from the previous quarter and 14.6% year-over-year.
- Daily active users (“DAU”) for new micro-client game Calibur of Spirit were 1 million.

“We achieved another quarter of solid growth as we gain strong growth momentum in our MMORPG, mobile games and online education businesses.” commented Mr. Dejian Liu, Chairman and Executive Director of NetDragon. “We are pleased that two of our newly launched games, Calibur of Spirit and Eudemons Online Pocket Version, gain strong user traction as hype surrounding Calibur of Spirit continues to grow following its selection for the World Cyber Arena (“WCA”) held in Yinchuan in October 2014. This was not only the sole China-developed competitive game selected, but also marked NetDragon’s first game entered into the WCA – a fact that we are very proud of. Calibur of Spirit has already been able to achieve PCU of 170,000, MAU of 4 million and DAU of 1 million during the quarter, and over RMB10 million in monthly gross revenue in October 2014. With marketing and promotional activities ramping up in preparation for its official launch early next year, we are confident that revenue for this game will grow substantially in 2015. At the same time, we are excited to have concluded an agreement with Valve during the quarter to make the English version of our new 3D strategy MMO game, Tiger Knight, available on Steam in the near future once open beta-testing is completed early next year.”

“We continued to push our mobile games business forward with revenue increasing 43.8% sequentially as we take advantage of the rapid shift towards mobile globally. The Android version of Eudemons Online Pocket Version was launched in September 2014 to great reviews and has already generated solid operating metrics. We also have high

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

² the PCU and ACU data below did not include the new micro-client game Calibur of Spirit

hopes for the iOS version which will begin open-beta testing next quarter. We signed an exclusive licensing agreement for Blade & Sword with one of China's leading mobile game publishers during the quarter. In overseas markets, the Arabic version of The Pirate generated record high monthly revenue.”

“We just concluded a summit on smart education which we jointly organized with East China Normal University to focus on developing educational tools for the digital age. We are developing relationships with multiple educational institutions such as Beijing Normal University and Central China Normal University as part of our broader strategy to participate in the formulation of educational standards. As part of this effort, we have been developing intelligent classroom and other educational products that will seamlessly be integrated into our overall ecosystem. We began to generate revenue from our K12 educational tablet during the quarter and look forward to further developing our total-solution educational ecosystem. We are confident our education products will provide a unique value proposition to the massive addressable market of students in China.”

Third quarter 2014 Unaudited Financial Results

Revenue

Revenue was RMB232.7 million, an increase of 1.1% from RMB230.1 million in the previous quarter and an increase of 6.1% from RMB219.4 million during the same quarter last year.

Revenue from online games and other business generated from China was RMB195.9 million, a decrease of 3.8% from RMB203.5 million in the previous quarter and an increase of 0.4% from RMB195.1 million in the same quarter last year.

Revenue from online games and other business generated from overseas markets was RMB36.8 million, an increase of 38.3% from RMB26.6 million in the previous quarter and an increase of 51.4% from RMB24.3 million in the same quarter last year. The sequential and year-over-year increases were mainly due to revenue contribution from Cherrypick's mobile solutions business which was acquired by the Company during the third quarter of 2014.

Gross profit and gross profit margin

Gross profit was RMB209.2 million, an increase of 0.4% from RMB208.2 million in the previous quarter and an increase of 4.8% from RMB199.5 million in the same quarter last year. Gross profit margin was 89.9%, compared with 90.5% in the previous quarter and 91.0% in the same quarter last year.

Operating expenses

Selling and marketing expenses were RMB38.6 million, an increase of 14.8% from RMB33.6 million in the previous quarter and an increase of 38.1% from RMB27.9 million in the same quarter last year. The sequential and year-over-year increases in selling and marketing expenses were mainly due to increases in staff costs in relation to the rapid build-up of our education business as well as advertising and promotional expenses.

Administrative expenses were RMB77.5 million, an increase of 8.2% from RMB71.6 million in the previous quarter and a decrease of 11.5% from RMB 87.6 million in the same quarter last year. The sequential increase in administrative expenses was mainly due to increases in staff costs and depreciation of the new Changle base and amortisation of intangible assets arising from acquisition of Cherrypicks which were offset by a decrease in legal and professional fees. The year-over-year decrease was mainly due to decreases in share-based compensation and legal and professional fees which were partially offset by increases in low value consumables, depreciation and amortisation and rental expenses.

Development costs were RMB67.3 million, an increase of 30.3% from RMB51.7 million in the previous quarter and an increase of 48.5% from RMB45.3 million in the same quarter last year. The sequential increase in development costs was mainly due to an increase in R&D staff. The year-over-year increase was mainly due to increases in staff and outsourcing costs.

Other expenses were RMB3.7 million, a decrease of 77.8% from RMB16.5 million in the previous quarter. The

sequential decrease in other expenses was mainly due to a one-time donation during the second quarter of 2014 to Beijing Normal University.

Operating profit

Operating profit from continuing operations was RMB57.7 million, a decrease of 24.1% from RMB76.0 million in the previous quarter and an increase of 15.8% from RMB49.8 million in the same quarter last year.

Profit for the Period from continuing operations

Profit for the Period from continuing operations was RMB52.4 million, a decrease of 17.8% from RMB63.8 million in the previous quarter and an increase of 41.8% from RMB37.0 million in the same quarter last year.

Basic and diluted earnings per share were RMB0.1031 and RMB0.1027, respectively, compared with RMB0.1254 and RMB0.1250, respectively, in the previous quarter, and RMB0.0727 and RMB0.0722, respectively, in the same quarter last year.

Liquidity

As of September 30, 2014, NetDragon had bank deposits, bank balances, cash and pledged bank deposit and liquid investments (classified as held-for-trading investments) of approximately RMB3,398.7 million, compared with RMB3,709.3 million as of June 30, 2014. Liquid investments are comprised of pre-dominantly highly liquid fixed-income investments which are used to enhance the Company's overall strong cash position.

Share Repurchase Program

During the nine months ended September 30, 2014, the Company repurchased a total of 2,585,000 shares for an aggregate consideration of approximately HKD37.0 million before expenses.

During the month ended October 31, 2014, the Company repurchased and subsequently cancelled 2,824,500 shares for an aggregate consideration of approximately HKD37.0 million.

Third quarter 2014 Business Developments

Games

Growth momentum in the Company's online and micro-client games business picked up during the quarter following the launch of Calibur of Spirit and Eudemons Online Pocket Version. Calibur of Spirit generated PCU of 170,000, MAU of 4 million, and DAU of 1 million during the third quarter and over RMB10 million in monthly gross revenue in October 2014. The Company expects to see the game generate increasing returns following its official launch early next year. In September 2014, the android version of Eudemons Online Pocket Version was launched and recorded a pay rate of 6.74% and a one-day retention rate of approximately 45%.

In September 2014, the Company began closed-beta testing for Goddess Era, the Chinese expansion pack for its flagship game Eudemons Online. Slated to begin open-beta testing next quarter, the expansion pack allows players to enhance their characters' attributes for free through the newly added 'Goddess Gifts' system. The Company also released Second Ninja War, a new updated version of Conquer Online that adds new skills and weapons to the game. Mecho Wars, an expansion pack for the Company's flagship title Zero Online was launched in September 2014 and provides players with inter-server game modes and new gameplay. Talisman World, an expansion pack for Way of the Five began open-beta testing in July 2014. The expansion pack generated record monthly revenue by providing players with a refreshing new combat experience and battle mode.

Online and Mobile Education

The Company continued to make steady progress in the development of its Open Cloud-based Education Platform during the quarter. In partnership with universities, the Company drove the research progress on artificial intelligence, big data analysis and cloud computing and allowed the seamless connectivity of the educational tablet to education

resources. Having established a robust back-end platform, the Company is able to provide content support to various online education applications.

Discussions to develop new content and strategic partnership for the Company's online and mobile education business continued during the quarter. Development of the Company's K-12 educational tablet continued as it moved through the various stages of development including the design and function of its features and content. Through the implementation of a "total solution ecosystem" product strategy, the Company is working diligently to achieve targets in the design and development of software, hardware, content and social networking components. By leveraging technology, 'gamification' of educational content and user behavioral analysis in the delivery of educational content, the Company is confident that the final product will be a game-changer in the way students learn.

NetDragon entered into a strategic cooperation agreement with Beijing Normal University to jointly-focus on developing new educational content and technologies. The Company plans to establish a NetDragon research center in Beijing that will focus on jointly-developing educational opportunities with Beijing Normal University. Opportunities include cooperation in the development and production of content, joint employment of senior staff, collaborative research on classroom interaction and e-textbooks. NetDragon donated US\$250,000 to the Internet Learning Institute of the National Central University in Taiwan in an effort to develop smart educational tools for Chinese students in Mainland China, Taiwan, and Hong Kong during the quarter. The Company believes that its partnership with universities will broaden the supply of high-quality educational content as well as access to world class pedagogical research and practices.

The Company also signed strategic agreements with domestic and international education book publishers, working together in an effort to generate quality content for the educational tablet. In addition, it formed a strategic partnership with East China Normal University, Beijing Normal University and Huazhong Normal University to develop a unique innovative mobile education platform and worked with People's Education Press on to support the National Science and Technology program – Research on key technology in developing education resources digital publishing and application. The Company was responsible for presenting the program's display terminal (electronic bag), and its education tablet will serve as a pilot end device for the entire education industry.

Cooperation and Communication in the Mobile Internet Industry and Communication Technology between Fujian Province and Hong Kong

On September 5, 2014, NetDragon signed a Letter of Intent ("LOI") with Hong Kong Cyberport Management Company Limited and Hong Kong Wireless Technology Industry Association for a term of one year. The three parties agreed to establish a strategic partnership to further grow the local information and communication technology industry. The LOI covers the following four aspects: professional training, the introduction of local mobile applications to the mainland market, internship programs, and digital classrooms. All three parties will jointly support and help Hong Kong-based IT companies and talent to promote their business in Mainland China and will provide talent training programs for them.

Strategic Merger with Cherrypicks

On June 3, 2014, NetDragon entered into a sale and purchase agreement to acquire Cherrypick's mobile solution business. Cherrypicks is a leading enterprise in mobile technology and mobile marketing in the Asia Pacific region. The acquisition was completed on July 21, 2014. The strategic merger will provide the Company with a team of world-class, innovative mobile solutions developers with strong capabilities to build cutting edge mobile products for global markets in areas including enterprise software, mobile marketing, mobile commerce and mobile education.

Business Outlook

MMORPGs

The Company's first micro-client in-house developed multiplayer online battle arena game, Calibur of Spirit was selected for the World Cyber Arena ("WCA") held in at Yinchuan China in October 2014. This marks the Company's first game selected for the WCA, and represents a solid footstep in exploring the game industry chain. Calibur of Spirit is the only China-developed competitive game selected for the WCA. The game is currently undergoing beta-testing

and will begin open-beta testing in early 2015. Given the huge popularity of this game, the Company expects Calibur of Spirit to generate increased revenue for its gaming revenue in the following quarters. 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. Steam is a global fully integrated digital gaming and social platform developed by Valve. In September 2014, the Company signed an agreement with Valve to make the English version of the game available on Steam in the near future. Tiger Knight is in currently undergoing testing, with open beta-testing expected to begin in early 2015.

For existing online games, the Company will continue to provide gameplay updates and new versions to increase user stickiness. NetDragon plans to release brand new expansion packs for its flagship titles, Eudemons Online and Conquer Online, in the fourth quarter of 2014 including content enhancements.

Mobile Games

- The android version of Eudemons Online Pocket Version was officially launched in September 2014.
- Blade & Sword, a self-developed 2.5D role playing mobile game based on martial arts, is expected to begin testing of its iOS and Android versions during the fourth quarter of 2014.
- Waku & Maou, a real-time strategy-based collectible card mobile game featuring scenic landscapes, is currently undergoing closed-beta testing and is expected to launch during the fourth quarter of 2014.
- Fatal Fighter, a 2D scrolling mobile combat game, began a new beta testing in October 2014 with a simplified Chinese and Arabic version expected to launch in the fourth quarter of 2014 or early 2015.
- Martial Overlord, a 3D in-house developed martial arts mobile action game, is currently undergoing beta-testing and is expected to launch during the first quarter of 2015.

Online and Mobile Education

In cooperation with East China Normal University, the Company jointly organized the "2014 Strait Wisdom Education Forum and Education Informatization Technology Conference" held at the end of November 2014 which focused on education in the digital age. On November 27, NetDragon officially became a member of CELTSC's Branch Council for Education Technology following approval by all members present at the Council's general meeting. In the future, the Company will continue to participate in the formulation of standards for electronic books, bags and study rooms by cooperating with various institutions as it works to develop its educational ecosystem.

The Company expects to continue its strong progress in the development of its mobile education ecosystem product. On the hardware side, the Company is working to refine and enhance the functionality and uniqueness of its educational tablet based on user feedback gathered during the pilot launch. On the software side, NetDragon is implementing a program that will be rolled out in tandem with China's 'Three Access Points, Two Platforms' program which seeks to upgrade overall information technology for educational uses. According to the program, NetDragon will build a communication platform on online study room space based on the instant messaging technology.

In November 2014, NetDragon, Beijing Normal University and a global educational content company signed a memorandum of understanding to leverage each party's strengths to develop a leading smart education solution to support the national educational technology platform.

Non-GAAP Financial Measures

To supplement the consolidated results of the Company prepared in accordance with HKFRSs, the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Company'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 Company exclude share-based payments expense, amortisation of intangible assets arising from acquisition of subsidiaries, 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 third quarter 2014 financial results ended September 30, 2014 on Tuesday, December 2, 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	800-906-601
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 "3Q 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 mobile internet industry. 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 such as Eudemons Online and Conquer Online, 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 what was at the time the largest internet M&A transaction in China in 2013. Being a China's pioneer in overseas expansion, NetDragon directly operates a number of game titles in over 10 languages internationally since 2003. NetDragon continues to strive for developing mobile games and software applications for users. In recent years, NetDragon has also becoming a major player in China's online and mobile education industry as it works to leverage its mobile internet technologies and operational know-how to make fun and effective learning tools.

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 SEPTEMBER 30, 2014**

	Three Months Ended		
	September 30, 2014	June 30, 2014	September 30, 2014
	RMB '000	RMB '000	RMB '000
	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operations			
Revenue	232,702	230,144	219,364
Cost of revenue	<u>(23,530)</u>	<u>(21,888)</u>	<u>(19,837)</u>
Gross profit	209,172	208,256	199,527
Other income and gains	36,034	41,255	12,476
Selling and marketing expenses	(38,569)	(33,590)	(27,935)
Administrative expenses	(77,538)	(71,645)	(87,611)
Development costs	(67,341)	(51,687)	(45,349)
Other expenses	(3,666)	(16,491)	(1,259)
Share of losses of associates	(406)	(145)	(41)
Operating profit	57,686	75,953	49,808
Interest income on pledged bank deposit	638	840	222
Exchange gain (loss) on pledged bank deposit and secured bank borrowing	1,188	(2,106)	(1,769)
Net (loss) gain on derivative financial instrument	(646)	2,737	-
Net (loss) gain on held-for-trading	(1,553)	61	-
Finance costs	(728)	(1,132)	(326)
Profit before taxation	56,585	76,353	47,935
Taxation	(4,166)	(12,547)	(10,974)
Profit for the period from continuing operations	52,419	63,806	36,961
Discontinued operations			
Profit for the period from discontinued operations	-	-	105,586
Profit for the period	52,419	63,806	142,547
Other comprehensive (expense) income for the period, net of income tax:			
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss	(161)	29	(167)
Total comprehensive income for the period	52,258	63,835	142,380
Profit (loss) for the period attributable to:			
-Owners of the Company	52,595	63,830	97,230
-Non-controlling interests	(176)	(24)	45,317
	52,419	63,806	142,547
Profit for the period attributable to owners of the Company:			
-from continuing operations	52,595	63,830	36,926
-from discontinued operations	-	-	60,304
Profit for the period attributable to owners of the Company	52,595	63,830	97,230

(Loss) profit for the period attributable to non-controlling interests:			
-from continuing operations	(176)	(24)	35
-from discontinued operations	-	-	45,282
(Loss) profit for the period attributable to non-controlling interests	<u>(176)</u>	<u>(24)</u>	<u>45,317</u>
Total comprehensive income (expense) attributable to:			
-Owners of the Company	52,434	63,859	97,063
-Non-controlling interests	<u>(176)</u>	<u>(24)</u>	<u>45,317</u>
	<u>52,258</u>	<u>63,835</u>	<u>142,380</u>
Earnings per share	RMB	RMB cents	RMB cents
From continuing and discontinued operations			
-Basic	10.31	12.54	19.14
-Diluted	<u>10.27</u>	<u>12.50</u>	<u>19.02</u>
From continuing operations			
-Basic	10.31	12.54	7.27
-Diluted	<u>10.27</u>	<u>12.50</u>	<u>7.22</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2014**

	September 30, 2014 (Unaudited) RMB '000	December 31, 2013 (Audited) RMB '000
Non-current assets		
Property, plant and equipment	771,887	532,684
Prepaid lease payments	379,263	185,819
Investment property	—	15,725
Intangible assets	143,380	-
Interests in associates	30,510	1,299
Available-for-sale investments	5,000	5,000
Loan receivables	15,897	16,041
Deposits made for acquisition of property, plant and equipment	19,444	16,769
Other receivable	-	60,969
Goodwill	18,780	12,534
Deferred tax assets	54	54
	1,384,215	846,894
Current assets		
Prepaid lease payments	2,708	2,583
Loan receivables	898	713
Trade receivables	52,252	41,718
Other receivables, prepayments and deposits	167,914	69,770
Amounts due from related companies	1,704	4,564
Amounts due from associates	72	-
Held-for-trading investments	185,884	20,735
Pledged bank deposit	-	107,368
Bank deposits	2,540,917	3,051,289
Bank balances and cash	671,934	1,304,355
	3,624,283	4,603,095
Current liabilities		
Trade and other payables	168,999	152,837
Deferred income	27,008	26,553
Amount due to a related company	340	-
Secured bank borrowing	-	104,672
Other financial liability	-	3,122
Income tax payable	136,505	539,927
	332,852	827,111
Net current assets	3,291,431	3,775,984
Total assets less current liabilities	4,675,646	4,622,878

Non-current liabilities

Other payables	2,248	-
Deferred tax liabilities	51	-
	2,299	-
Net assets	4,673,347	4,622,878

Capital and reserves

Share capital	37,849	37,664
Share premium and reserves	4,633,727	4,577,478
Equity attributable to owners of the Company	4,671,576	4,615,142
Non-controlling interests	1,771	7,736
	4,673,347	4,622,878