

NetDragon Announces Fourth Quarter and Fiscal Year 2014 Financial Results

Strong Revenue and Operational Metrics Growth

[Hong Kong, March 26, 2015]—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 fourth quarter and fiscal year ended December 31, 2014. A conference call and webcast is scheduled at 8 p.m. Hong Kong Time on March 26, 2015 to discuss the results and recent business developments.

Fiscal Year 2014 Financial Highlights

- Revenue was RMB962.8 million, an increase of 8.9% from RMB 884.5 million last year.
- Operating profit was RMB252.0 million, an increase of 24.3% from RMB202.8 million last year.
- Profit from continuing operations attributable to owners of the Company was RMB176.7 million, an increase of 7.5% from RMB164.4 million last year.
- Basic and diluted earnings per share were RMB34.77 cents and RMB34.22 cents, respectively.

Fourth quarter 2014 Financial Highlights

- Revenue was RMB282.9 million, an increase of 21.6% quarter-over-quarter and 23.5% year-over-year.
- Gross profit was RMB246.5 million, an increase of 17.9% quarter-over-quarter and 19.7% year-over-year.
- Operating profit was RMB4.0 million, a decrease of 93.2% quarter-over-quarter and an increase from an operating loss of RMB1.7 million during the same period of 2013.
- Non-GAAP operating profit¹ was RMB13.5 million, a decrease of 79.7% quarter-over-quarter and an increase of 19.4% year-over-year.
- Loss attributable to owners of the Company was RMB19.4 million, compared to profit attributable to owners of the Company of RMB52.6 million during the previous quarter. Non-GAAP profit attributable to owners of the Company, which excludes several non-core operational items, was RMB6.8 million.
- Basic and diluted losses per share were RMB3.78 cents and RMB3.82 cents, respectively.
- The Board of Directors has proposed a final dividend of HK\$0.20 per share subject to the approval by shareholders at the Annual General Meeting.

Fourth quarter 2014 Operational Highlights²

- Peak concurrent users (“PCU”) for online games were 642,000.
- Average concurrent users (“ACU”) for online games were 301,000.

“We experienced a healthy 8.9% increase in revenue to RMB962.8 million during the year as we further consolidated our market position in the gaming space and pushed forward with the development of our online education platform,” commented Mr. Dejian Liu, Chairman and Executive Director of NetDragon. “Our online games business continues to gain strong growth momentum during the quarter with peak concurrent users reaching 642,000 as revenues increased 6.7% year-over-year to RMB221.5 million. One of our newest games, Calibur of Spirit, continues to gain strong user traction following its selection for the World Cyber Arena last fall. We signed an exclusive China licensing agreement

¹ See the ‘Non-GAAP Financial Measures’ section at the bottom of this release for more details

² PCU and ACU include the Company’s new micro-client game Calibur of Spirit

with Tencent and officially launched the game in January 2015 where it achieved record-high MAU of 7 million that month and monthly gross revenue over RMB21.0 million in February 2015. With such a strong performance at the beginning of its lifespan, we are confident that this game will develop into a substantial long-term new revenue stream as large scale marketing campaigns get underway and new updates are launched throughout the year. We launched new expansion packs for our flagship games during the period including an English version for Conquer Online which generated an 11-year high monthly revenue in December 2014. We are also excited to beta-launch Tiger Knight later this year.”

“We continued to incubate our mobile games business during the quarter and have seen encouraging progress from Eudemons Online Pocket Version which was officially launched in January 2015 and is expected to register over RMB10 million in monthly gross revenue in March 2015. The iOS and Android versions of Blade & Sword continue to make steady progress through the various stages of development while the Arabic version of The Pirate remains extremely popular across the Middle East and North Africa where it is expected to continue to grow as new updates are launched.”

“NetDragon’s new strategic business focus continues to be its online education business which completed a round of series A preference shares funding of US\$52.5 million in February 2015. The participation of globally renowned investors demonstrates the confidence they have in our unique position to leverage our proven world-class mobile internet and gaming expertise, large-scale technology resources and team infrastructure to build an online and mobile education ecosystem. We are making very solid progress in the design and development of our educational products, and remain on track to gradually roll them out as each development milestone is achieved. We expect to make exciting announcements in the coming months regarding our overall product strategy and the unique value proposition we can create for students, educators and parents.”

Mr. Ben Yam, Chief Financial Officer, added, “Non-GAAP profit for the quarter was RMB4.1 million which is a blended figure combining our highly profitable gaming business and our online education business which is currently in product development stage. During the quarter, our online games business achieved revenue growth of 6.7% year-over-year and 9.8% sequentially with a stable operating cost structure. We also continue to invest heavily in the development of educational products which requires significant investments in staff costs and has reduced the blended profitability in the short-term. These investments however, are the best use of our cash and demonstrate our commitment to building an online education business that will become another cornerstone for our long-term success.”

Fourth quarter 2014 Unaudited Financial Results

Revenue

Revenue was RMB282.9 million, an increase of 21.6% from RMB232.7 million in the previous quarter and 23.5% from RMB229.0 million during the same quarter last year.

Revenue from online games and other business generated from China was RMB229.0 million, an increase of 16.9% from RMB195.9 million in the previous quarter and 11.6% from RMB205.2 million in the same quarter last year. The increase in revenue was mainly due to the strong performance of Eudemons Online and Calibur of Spirit.

Revenue from online games and other business generated from overseas markets was RMB53.9 million, an increase of 46.2% from RMB36.8 million in the previous quarter and 126.0% from RMB23.8 million in the same quarter last year due to the growth in the Company's mobile solutions and marketing business operated by its Hong Kong-based subsidiary Cherrypicks.

Gross profit and gross margin

Gross profit was RMB246.5 million, an increase of 17.9% from RMB209.2 million in the previous quarter and 19.7% from RMB205.9 million in the same quarter last year. Gross margin was 87.2%, compared with 89.9% in the previous quarter and 89.9% in the same quarter last year. The decreases in gross margin were partly due to the inclusion of Cherrypicks which generates lower gross margins when compared with NetDragon's online games business.

Operating expenses

Selling and marketing expenses were RMB51.2 million, representing an increase of 32.8% from RMB38.6 million in the previous quarter, and 61.6% from RMB31.7 million during the same period last year. The increase in selling and marketing expenses was mainly due to the increase in advertising and promotional expenses of Eudemons Online and Calibur of Spirit.

Administrative expenses were RMB120.9 million, representing an increase of 55.9% from RMB77.5 million during the third quarter of 2014 and a decrease of 14.2% from RMB140.9 million during the same period last year. The quarter-over-quarter increase in administrative expenses was mainly due to the increase in (i) staff costs; and (ii) depreciation and amortization. The year-over-year decrease in administrative expenses was mainly due to the (i) decrease in exchange loss on foreign currencies; and (ii) expenditure of domain name during the same period last year.

Development costs were RMB89.3 million, representing an increase of 32.6% from RMB67.3 million during the third quarter of 2014 and an increase of 100.8% from RMB44.5 million during the same period last year. The sequential and year-over-year increases in development costs was mainly due to increases in (i) staff costs; and (ii) outsourcing fees.

Other expenses were RMB12.0 million, representing an increase of 226.7% from RMB3.7 million during the third quarter of 2014 and 126.4% from RMB5.3 million during the same period last year. The sequential and year-over-year increases in other expenses was mainly due to the increase in allowances on trade receivables.

Operating profit

Operating profit from continuing operations was RMB4.0 million, a decrease of 93.2% from RMB57.7 million in the third quarter of 2014, and an increase from an operating loss of RMB1.7 million in the same quarter last year.

Taxation

Taxation was RMB9.4 million, an increase of 126.6% from RMB4.2 million during the third quarter of 2014 and a decrease of 43.7% from RMB16.8 million during the same quarter last year. The sequential increase in taxation was mainly due to an under provision for tax in 2014 while the year-over-year decrease was mainly due to the decrease in

taxable profit.

(Loss) profit for the period from continuing operations

Loss from continuing operations was RMB22.2 million, compared with profit of RMB52.4 million in the previous quarter and loss of RMB2.7 million in the same quarter last year.

Non-GAAP profit from continuing operations, which excludes a net loss on held-for-trading investments (which tend to fluctuate quarter-to-quarter), an exchange loss and amortization of intangible assets resulting from the acquisition of Cherrypicks last year, was RMB4.1 million during the fourth quarter of 2014.

Liquidity

As of December 31, 2014, NetDragon had bank deposits, bank balances, cash, pledged bank deposits and held-for trading liquid investments of approximately RMB3,484.8 million, compared with RMB4,483.7 million as of December 31, 2013.

Business Review and Outlook

Games

On October 26th, 2014, NetDragon began beta testing “Goddess Era”, a new expansion pack for Eudemons Online that introduces the “Goddess Gifts” system and allows players to enhance their character’s attributes free of charge. The new expansion pack, which enhances gameplay and increases user stickiness, is expected to begin closed beta testing during the first half of 2015. Eudemons Online celebrated its anniversary in March 2015 with in-game activities. Conquer Online, the Company’s other flagship title, also launched a new expansion pack “King of Kungfu” in October 2014. By adding new classes to the game, the expansion pack provides more excitement for players. The English, French, Spanish and Arabic versions of Conquer Online’s expansion pack were also launched overseas. A class-updated version of Conquer Online – The Rhapsody of Ice and Fire: Taoist Ascending will be launched during the first half of 2015 and is expected to maintain the game’s market share overseas. Revenue generated by the English version of Conquer Online in December 2014 reached an 11-year high as a result of the enhanced competitiveness of the game in various countries and regions worldwide.

Calibur of Spirit, NetDragon’s first MOBA web micro-client game, officially began open-beta testing on January 16, 2015, achieving MAU of 7 million that month and over RMB21.0 million in monthly gross revenue in February 2015 demonstrating the Company’s world-class game-design and development capabilities. The game was previously selected for the 2014 World Cyber Arena held in Yinchuan, China in October 2014. Marketing and promotional events have rapidly increased the game’s operational metrics. The Company also signed an exclusive China licensing agreement for Calibur of Spirit with Tencent at the end of 2014. NetDragon is confident that revenue from this game will grow substantially as large scale publicity campaigns get underway. The Portuguese and Spanish versions of Calibur of Spirit have already been completed and are scheduled to begin testing in Latin America and Europe in the first half of 2015. The Company’s in-house developed 3D action war game Tiger Knight began its first round of internal beta testing during the fourth quarter of 2014 and will begin its second round during the second quarter of 2015. A new expansion pack for Way of the Five was launched during the quarter along with annual celebration activities which began on March 7, 2015.

NetDragon continued to release content updates for its mobile game including one for the Arabic version of The Pirate in the fourth quarter of 2014 in an effort to solidify its existing player base as well as to seek out new players. This resulted in new record high monthly gross revenue in October 2014. The Company is committed to its strategy of developing high-quality products and continues to develop mobile products to ensure their success in an increasingly competitive market. The iOS version of Blade & Sword, NetDragon's self-developed mobile 2.5D martial arts role-play game, finished closed beta testing in November 2014 and is currently undergoing closed beta testing of its iOS version with the Android version expected to begin closed beta testing in the first quarter of 2015. Martial Overlord, a mobile 3D martial arts action game, began channel testing in November 2014 and its second round of beta-testing in March 2015. The iOS version of Eudemons Online Pocket Version was officially launched on Apple's AppStore in January 2015 with open beta testing for the Android version beginning at the same time. Waku & Maou, is a real-time strategy-based collectible mobile card game which began being operated by China's leading mobile game publisher in January 2015. The Android version began its first round of closed beta testing in January 2015 with open beta testing for the Android and iOS version expected to begin during the first half of 2015.

Online and Mobile Education

The Company made very strong progress in research and development, pedagogy integration, content partnership and acquisition, sales channel build-out and M&A discussions for its online and mobile education business during the fourth quarter and fiscal year 2014.

Research & Development -- The Company's educational product design and R&D team currently comprises of over 350 staff. With world-class leadership, the team focuses on the design and development of both software and hardware, and over the course of 2014, has achieved many milestones in the development of high-quality and differentiated software. The Company's 101 student tablet, which has also gone through multiple design iterations, will be commercially launched during the third quarter of 2015. The Company's product development roadmap to create a holistic, integrated total-solution for online and mobile education remains unchanged. The initial version of the commercialized product will be focused on enabling best-in-class interconnectivity in the classroom, and will create true value through a transformational yet easy-to-learn educational solution for teachers and students. The Company will update the market when more information on product launches is available. In addition, the Company expects to officially open a research lab in Beijing in the coming months to extend its talent acquisition reach. The current plan is to scale the office to hundreds of R&D staff within one to two years to accelerate educational research and development.

Pedagogy Integration – NetDragon continues to deepen its partnership with Beijing Normal University, China's top education university, to ensure the most effective pedagogy is being developed and integrated based on collaboration with proven hands-on educators. In November 2014 NetDragon, signed an agreement with Beijing Normal University to jointly research e-classroom design in an effort to develop insight into how software and hardware can best be integrated with various teaching models in a classroom learning environment. One March 18, 2015, NetDragon's education subsidiary and Beijing Normal University also announced the establishment of Smart Learning Institute which will provide a unique platform to integrate the most advanced e-pedagogy with NetDragon's mobile internet expertise and technological know-how. The Company believes the accumulation and understanding of pedagogy through its partnerships with top-tier universities and institutions including Beijing Normal University will form a significant barrier to entry.

Content Partnerships – NetDragon signed a MOU in November 2014 with a subsidiary of Pearson, the globally

renowned leading education company, and Beijing Normal University, to develop a smart education solution. This collaboration will leverage Pearson's rich K12 educational content resources to build China's leading integrated smart education solution. In addition, the Company is also in discussions with numerous major publishers and content partners to enrich the content on its platform.

Channel Build-Out – The Company is in the process of building a nationwide school distribution network for its educational products. Currently, the Company is in discussion with over 20 regional and local distributors and has secured distribution agreements with a number of them. The Company is also in active discussions with several channel partners in addition to conventional distributors.

M&A – NetDragon is in advanced discussions with multiple major acquisition targets in the online education space. If such acquisitions materialize, the Company's competitive position in the market will further be enhanced.

Fundraising – In February 2015, NetDragon's education subsidiary closed a Series A equity fundraising round of US\$52.5 million led by IDG, Vertex (a Temasek subsidiary) and Alpha Animation, at a valuation of US\$477.5 million.

Other developments – Netdragon was officially admitted to the Education Informatization Standard Committee under the Ministry of Education in November 2014. Membership will allow NetDragon to participate in the forming of technology standards, which will be conducive in developing the right products that meet or exceed regulatory standards. NetDragon is one of a very select few tier-one mobile internet companies who are members of the committee.

Non-GAAP Financial Measures

To supplement the consolidated results of the Company prepared in accordance with Hong Kong Financial Reporting Standards ("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, amortisation of intangible assets arising from acquisition of subsidiaries, interest income on pledged bank deposits, exchange gain (loss) on pledged bank deposits, secured bank borrowings and redeemable convertible preferred shares, net gain (loss) on derivative financial instruments, finance costs and gain on disposal of subsidiaries (net of related income tax).

Management Conference Call

NetDragon will host a management conference call and webcast to review its the fourth quarter and fiscal year 2014 results on Thursday, March 26, 2015, 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)	800-819-0121
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://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 "4Q and Fiscal Year 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 games and mobile internet industries. Established in 1999, NetDragon is leading developer in the mobile internet segment 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 become a major player in China's online and mobile education industry as it works to leverage its mobile internet technologies expertise and know-how to develop a game-changing education ecosystem product.

For investor enquiries, please contact:

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED 31 DECEMBER 2014)

	4Q 2014 (Unaudited) RMB '000	3Q 2014 (Unaudited) RMB '000	2014 (Audited) RMB '000	2013 (Audited) RMB '00
Continuing operations				
Revenue	282,880	232,702	962,817	884,518
Cost of revenue	<u>(36,342)</u>	<u>(23,530)</u>	<u>(102,844)</u>	<u>(81,426)</u>
Gross profit	246,538	209,172	859,973	803,092
Other income and gains	32,464	36,034	157,101	44,980
Selling and marketing expenses	(51,206)	(38,569)	(152,495)	(106,200)
Administrative expenses	(120,876)	(77,538)	(326,934)	(366,143)
Development costs	(89,278)	(67,341)	(249,260)	(162,857)
Other expenses	(11,977)	(3,666)	(34,027)	(10,046)
Share of losses of associates	<u>(1,715)</u>	<u>(406)</u>	<u>(2,354)</u>	<u>(16)</u>
Operating profit	3,950	57,686	252,004	202,810
Interest income on pledged bank deposits	475	638	2,794	4,883
Exchange gain (loss) on pledged bank deposits and secured bank borrowings	-	1,188	(5,081)	4,593
Net (loss) gain on derivative financial instrument	-	(646)	6,817	(5,481)
Gain on disposal of available-for-sale investment	-	-	-	5,761
Net (loss) gain on held-for-trading investments	(16,905)	(1,553)	(17,304)	8,756
Finance costs	<u>(235)</u>	<u>(728)</u>	<u>(3,212)</u>	<u>(4,651)</u>
(Loss) profit before taxation	(12,715)	56,585	236,018	216,671
Taxation	<u>(9,442)</u>	<u>(4,166)</u>	<u>(64,197)</u>	<u>(50,264)</u>
(Loss) profit for the period/year from continuing operations	(22,157)	52,419	171,821	166,407
Discontinued operations				
Profit for the period/year from discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	6,056,041
(Loss) profit for the period/year	(22,157)	52,419	171,821	6,222,448
Other comprehensive expense for the period/year, net of income tax:				
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss	<u>(461)</u>	<u>(161)</u>	<u>(40)</u>	<u>(1,130)</u>
Total comprehensive (expense) income for the period/year	<u>(22,618)</u>	52,258	<u>171,781</u>	6,221,318

(Loss) profit for the period/year attributable to:

-Owners of the Company	(19,406)	52,595	176,681	6,140,776
-Non-controlling interests	(2,751)	(176)	(4,860)	81,672
	(22,157)	52,419	171,821	6,222,448

(Loss) profit for the period/year attributable to owner of the Company:

-from continuing operations	(19,406)	52,595	176,681	164,352
-from discontinued operations	-	-	-	5,976,424

(Loss) profit for the period/year attributable to owner of the Company

	(19,406)	52,595	176,681	6,140,776
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(Loss) profit for the period/year attributable to non-controlling interests:

-from continuing operations	(2,751)	(176)	(4,860)	2,055
-from discontinued operations	-	-	-	79,617

(Loss) profit for the period/year attributable to non-controlling interests

	(2,751)	(176)	(4,860)	81,672
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Total comprehensive (expense) income attributable to:

-Owners of the Company	(19,867)	52,434	176,641	6,139,646
-Non-controlling interests	(2,751)	(176)	(4,860)	81,672
	(22,618)	52,258	171,781	6,221,318

RMB cents

RMB cents

RMB cents

RMB cents

(Loss) earnings per share

From continuing and discontinued operations

- Basic	(3.78)	10.31	34.77	1,213.44
- Diluted	(3.82)	10.27	34.22	1,181.10

From continuing operations

- Basic	(3.78)	10.31	34.77	32.48
- Diluted	(3.82)	10.27	34.22	31.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (AS AT 31 DECEMBER 2014)

	2014	2013
	(Audited)	(Audited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	822,704	532,684
Prepaid lease payments	378,673	185,819
Investment property	-	15,725
Intangible assets	141,254	-
Interests in associates	28,795	1,299
Available-for-sale investments	5,000	5,000
Loan receivables	18,327	16,041
Deposits made for acquisition of property, plant and equipment	35,967	16,769
Other receivable	-	60,969
Goodwill	40,013	12,534
Deferred tax assets	54	54
	<u>1,470,787</u>	<u>846,894</u>
Current assets		
Prepaid lease payments	2,708	2,583
Loan receivables	1,578	713
Trade receivables	51,072	41,718
Amounts due from customers for contract work	7,252	-
Other receivables, prepayments and deposits	210,098	69,770
Amounts due from related companies	1,704	4,564
Amounts due from associates	367	-
Held-for-trading investments	211,584	20,735
Pledged bank deposit	236,805	107,368
Bank deposits	1,999,644	3,051,289
Bank balances and cash	1,036,788	1,304,355
	<u>3,759,600</u>	<u>4,603,095</u>
Current liabilities		
Trade and other payables	209,214	152,837
Amounts due to customers for contract work	424	-
Deferred income	25,595	26,553
Amount due to a related company	1,891	-
Amount due to an associate	8	-
Secured bank borrowing	236,805	104,672
Other financial liability	-	3,122
Income tax payable	137,648	539,927
	<u>611,585</u>	<u>827,111</u>
Net current assets	<u>3,148,015</u>	<u>3,775,984</u>
Total assets less current liabilities	<u>4,618,802</u>	<u>4,622,878</u>

Non-current liabilities

Other payables	1,283	-
Deferred tax liabilities	116	-
	<u>1,399</u>	<u>-</u>

Net assets

<u>4,617,403</u>	<u>4,622,878</u>
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Capital and reserves

Share capital	36,943	37,664
Share premium and reserves	4,529,971	4,577,478

Equity attributable to owners of the Company	4,566,914	4,615,142
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Non-controlling interests	50,489	7,736
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<u>4,617,403</u>	<u>4,622,878</u>
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