

NetDragon Announces First Quarter 2015 Financial Results

-Solid Progress in Education Business Supported by Strong Online Games Business-

[Hong Kong, June 11, 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 first quarter ended March 31, 2015.

Management will host a conference call and webcast to discuss the results on Thursday, June 11, 2015 at 8 p.m. Hong Kong Time.

First quarter 2015 Financial Highlights

- Revenue was RMB246.2 million, a decrease of 13.0% quarter-over-quarter and an increase of 13.4% year-over-year.
- Gross profit was RMB207.2 million, a decrease of 16.0% quarter-over-quarter and an increase of 5.7% year-over-year.
- Non-GAAP operating profit¹ was RMB7.4 million, a decrease of 45.6% quarter-over-quarter and 93.9% year-over-year.
- Non-GAAP profit was RMB2.9 million, a decrease of 30.0% quarter-over-quarter and 96.5% year-over-year.
- Loss attributable to owners of the Company was RMB10.9 million, an improvement of 43.8% quarter-over-quarter.
- Non-GAAP profit attributable to owners of the Company was RMB5.0 million, a decrease of 26.7% quarter-over-quarter and 94.1% year-over-year.
- Basic loss per share was RMB2.21 cents.

First quarter 2015 Operational Highlights²

- Peak concurrent users (“PCU”) for online games were 703,000, an increase of 9.5% quarter-over-quarter.
- Average concurrent users (“ACU”) for online games were 309,000, an increase of 2.7% quarter-over-quarter.

“We further consolidated our market position in the gaming space and pushed the development of our online education platform forward during the quarter,” commented Mr. Dejian Liu, Chairman and Executive Director of NetDragon. “First quarter revenues increased 13.4% year-over-year to RMB246.2 million on the back of strong growth momentum from our online and mobile games business and improving operational metrics. We remain focused on the construction and rollout of our holistic online education ecosystem which requires us to invest heavily in the development of our education products and will thus impact our profitability over the short-to-medium term. We are committed to this strategic expansion and are confident in the long-term prospects of our disruptive online education business.”

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

² The PCU and ACU data of Q1 2015 and Q4 2014 include the new micro-client game Calibur of Spirit

“Our online games business continues to gain strong growth momentum as we optimize our growing portfolio of games with the launch of popular new gaming modes and exciting new content. ‘Calibur of Spirit,’ our first MOBA micro-client game, had a stellar start following its public beta-launch in January 2015 with monthly active users reaching 7.9 million by the following month. With a series of upcoming marketing events already planned, we are in discussions to begin marketing this game internationally. We are confident in Calibur of Spirit’s ability to generate a sustainable and growing revenue stream for us that will add greater value to our existing portfolio of flagship games. Our 3D action war game ‘Tiger Knight,’ while still under development, was among the games listed on Sina’s ‘China Games Weight Rank’ and was awarded ‘Top Online Game of the Year’ and ‘New Game of the Year’ in April 2015. On the mobile front, Eudemons Online Pocket Version grew strongly following its official launch in January 2015, consistently generating over RMB10 million per month in gross revenue. We also believe that this flagship mobile game will generate yet another significant revenue stream for our games business going forward.”

“We remain squarely focused on the development of our online education business. We made significant progress in the design and development of our complementary hardware and software products during the quarter as we prepare for their launch. As we embark on our journey to enable life-time learning by integrating technology with education, our near-term focus has been on designing our products to tackle the pain points of teachers and students in the K12 space. By combining our internet and mobile product design capabilities with our deep understanding of education, we are confident that our products will provide a unique value proposition and fill the gap that we see today in competing products.”

“We have been and continue to be in active discussions with multiple acquisition targets as we seek to further enhance our competitive position in the market. In June 2015, we signed a stock purchase agreement to, subject to certain closing conditions, acquire a 100% stake in ChiVox Co., Ltd. (“ChiVox”), a leading intelligent voice and speech technology provider in China. We are currently in acquisition talks with an international education player that will enable us to expand worldwide. Last but not least, we are pleased to announce the appointment of Dr. Simon Leung as NetDragon’s Vice Chairman and CEO of our education business. Prior to joining the NetDragon family, Dr. Leung has held several senior management roles including CEO of Harrow International Management Services Limited (the company that oversees the running of all Harrow International Schools), CEO of Microsoft Greater China region, and President of Motorola Asia Pacific. We are extremely excited to have Dr. Leung onboard and we look forward to the invaluable management expertise and leadership he will bring with him as he drives the formation and execution of our education strategy.”

First Quarter 2015 Unaudited Financial Results

Revenue

Revenue was RMB246.2 million, a decrease of 13.0% from RMB282.9 million in the previous quarter and an increase of 13.4% from RMB217.1 million during the same quarter last year.

Revenue from online games and other business generated from China was RMB204.2 million, a decrease of 10.9% from RMB229.0 million in the previous quarter and an increase of 8.8% from RMB187.7 million in the same quarter last year. The sequential decrease was mainly a result of a temporary decrease in revenue from Eudemons Online due in part to the Company’s efforts to optimize player mix and monetization and improve player behavior during the

quarter. These efforts are targeted at creating a more equal and fair gaming environment and optimizing future monetization. Revenue from Eudemons Online during the first two months of the second quarter of 2015 has returned to normal levels, demonstrating the effectiveness of this campaign.

Revenue from online games and other business generated from other markets was RMB42.0 million, a decrease of 21.9% from RMB53.9 million in the previous quarter and an increase of 43.2% from RMB29.4 million in the same quarter last year. While expected, the sequential decrease was mainly due to seasonality in revenue generated from Cherrypick's mobile technology and marketing businesses.

Gross profit and gross margin

Gross profit was RMB207.2 million, a decrease of 16.0% from RMB246.5 million in the previous quarter and an increase of 5.7% from RMB196.0 million in the same quarter last year. Gross margin was 84.2%, compared with 87.2% in the previous quarter and 90.3% in the same quarter last year. The decreases in gross margin was mainly due to (i) the temporary decrease in revenue from Eudemons Online, and (ii) a reclassification of Cherrypicks' project staff costs from administrative costs to cost of sales starting in the first quarter of 2015 for improved financial statement presentation.

Operating expenses

Selling and marketing expenses were RMB30.8 million, representing a decrease of 39.8% from the previous quarter, and an increase of 5.8% from the same period last year. The sequential decrease was mainly due to elevated marketing and promotional expenses during the fourth quarter of 2014 in preparation for the January 2015 launch of Eudemons Online Pocket Version and Calibur of Spirit.

Administrative expenses were RMB106.9 million, representing a decrease of 11.5% from the previous quarter and an increase of 88.0% from the same period last year. The sequential decrease was mainly due to the 2014 annual bonus being accrued in the staff costs during the previous quarter.

Development costs were RMB87.9 million, representing a decrease of 1.6% from the previous quarter and an increase of 114.6% from the same period last year.

(Loss) profit for the period

Loss for the period was RMB13.1 million, an improvement of 41.0% from the previous quarter.

Non-GAAP profit for the period was RMB2.9 million.

Liquidity

As of March 31, 2015, NetDragon had bank deposits, bank balances, cash, pledged bank deposit and held-for trading investments of approximately RMB3,512.9 million, compared with RMB3,484.8 million as of December 31, 2014.

Business Review and Outlook

Games

During the first quarter of 2015, a new game mode for “Conquer Online” was launched resulting in record high overseas revenue in March 2015. Conquer Online celebrated its anniversary in April with the launch of “The Rhapsody of Ice and Fire: Taoist Ascending” which further consolidates the game’s market share and includes class updates for both the Chinese and overseas versions of the game. “War of Legions,” the new expansion pack for NetDragon’s flagship game “Eudemons Online” officially began open-beta testing in May 2015. “War of Legions” offers players a richer gaming experience by adding a new model of “Troop of Legions” and new weapons. The Company increased its efforts to optimize the player mix and monetization of Eudemons Online during the quarter. These efforts are targeted at creating a more equal and fair gaming environment and optimizing future monetization. Based on current run rates, revenue from Eudemons Online is expected to return to normal levels in the second quarter.

“Calibur of Spirit”, NetDragon’s first MOBA micro-client game, officially began open-beta testing on Tencent’s platform in January 2015 and has since recorded significant player growth. A series of professional tournaments for the game have been organized since April 2015, with events such as the WCA online qualifying tournament and a hundred-school competition. Frequent events such as these are expected to further increase the game’s exposure and further improve its operating metrics. In addition, the Portuguese version of “Calibur of Spirit” began closed beta-testing in March 2015 and is scheduled to begin official open-beta testing during the second quarter of the year. With the game's popularity increasing, the Company will further develop the overseas version. 3D action war game “Tiger Knight” was among the games listed on Sina’s “China Games Weight Rank” and was awarded “Top Online Game of the Year” and “New Game of the Year”. The game vividly reproduces legendary army battle scenes with lifelike effects that have won praise from players. “Tiger Knight” is scheduled to begin alpha testing during the second half of the year with the launch of its Chinese version expected before the end of the year.

“Eudemons Online Pocket Version” has recorded strong growth in its operational metrics since open-beta testing began in January 2015 with monthly gross revenue exceeding RMB10 million in March 2015. A traditional Chinese version was released in Hong Kong and Taiwan in April 2015. The Company continues to optimize and test its upcoming mobile games. Real-time strategy-based collectible mobile card game “Waku & Maou” began its first round of closed-beta testing in January 2015. The iOS version was released in April 2015 where it ranked among the top 10 paid mobile games on the AppStore within two days. The game began all platform open-testing in April 2015 with official open-beta testing scheduled for the second half of the year. 2.5D martial arts mobile role-playing game “Blade & Sword” began alpha testing for its Android version in April with plans to formally launch by the end of the year.

Online and Mobile Education

The Company continues to build upon its momentum from the fourth quarter of 2014 as it makes strong progress in the research and development, pedagogy integration, content partnerships, sales channel build-out and M&A for its online and mobile education business.

The Product – The Company continued to focus on the design and development of its education ecosystem during the quarter. The Company’s go-to-market product for K12 schools will be a total-solution that encompasses hardware (the 101 student tablet), software (which includes the flagship interactive classroom software that comes with pre-class and in-class modules), social networks (an education-tailored instant messaging platform), as well as supplemental equipment such as 101 projectors, 101 smart-cloud-box and a 101 power charging dolly. After going through multiple design iterations, the 101 student tablet’s appearance, performance, speed, and operating system have been improved and optimized in preparation for full production during the second half of the year. The Company has developed over 20 learning applications that target different learning purposes and objectives. The Company’s existing instant messaging platform has also gone through several stages of optimization to cater to the needs of students, parents and teachers. The Company is building a proprietary cloud platform on which the educational ecosystem will operate, to ensure best-in-class reliability, scalability and performance.

Pedagogy Integration – NetDragon continues to deepen its partnership with China’s top education universities, creating synergies between their education resources and NetDragon’s leading technology teams. These partnerships will ensure that the most effective pedagogy is being developed and integrated. On March 18, 2015, NetDragon’s education subsidiary and Beijing Normal University announced the establishment of the Smart Learning Institute which will provide a unique platform to integrate the most advanced pedagogy with NetDragon’s mobile internet expertise and technological know-how. The Company and Fujian Normal University also signed an agreement during the quarter to combine and integrate “flipped classroom” technologies and pedagogy.

Content Partnerships – NetDragon continues to build partnerships with domestic and foreign educational publishers by licensing and purchasing content. Specifically, the Company is focusing on licensing a wide array of content including curriculums and supplementary content in various formats. The Company’s content strategy is to breakdown licensed content into modules that are relevant to users and integrate it with relevant pedagogy resulting in a large educational content data base that can be delivered to users under different use case scenarios.

Go-to-Market – The Company’s go-to-market strategy will combine an on-the-ground channel build-out with an online B2C model that will help foster a large and active user base. The on-the-ground channel build-out will be critical when entering new geographical markets with the B2C online model helping scale the platform’s users and monetization as personalized, targeted services are pushed to users on the cloud platform. As part of the channel build-out effort, the Company is partnering with regional and local distributors to build a nationwide distribution network. In addition, the Company has established an in-house sales team that will covers 6 regions and 17 provinces in China. The Company is also exploring expansion into international markets through M&A and joint venture partnerships.

M&A – NetDragon is and continues to be in active discussions to explore M&A opportunities. The Company’s goal is to acquire business or technological components that are needed to enhance its product’s value proposition, fast track product development, or improve go-to-market position. In June 2015, the Company signed a stock purchase agreement to conditionally acquire a 100% stake in ChiVox, a leading intelligent voice and speech technology provider in China. This acquisition will enable NetDragon to integrate world class intelligent voice and language technologies into its education products and produce a unique value proposition in the area of voice assessment, voice recognition and language pedagogy. In addition, the Company is also in discussions to acquire an international education player for up to approximately US\$130 million.

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.

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, loss on deemed disposal of associates, amortisation of intangible assets arising on acquisition of subsidiaries, interest income on pledged bank deposit, exchange loss on pledged bank deposit and secured bank borrowing, net gain on derivative financial instrument, gain on disposal of held-for-trading investment, net (loss) gain on held-for-trading investments and financial costs.

Management Conference Call

NetDragon will host a management conference call and webcast to review its the first quarter of 2015 results on Thursday, June 11, 2015, at 8pm Hong Kong time. Attending the meeting will be Mr. Simon Leung, Vice Chairman; Mr. Ben Yam, Chief Financial Officer; and Ms. Maggie Zhou, Senior Director of Investment Relations.

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 “1Q 2015 Results Conference Call” and follow the registration instructions.

About NetDragon Websoft Inc.

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 2013 in what was at the time the largest Internet M&A transaction in China. Being China’s pioneer in overseas expansion, NetDragon also directly operates a number of game titles in over 10 languages internationally since 2003. In recent years, NetDragon has become 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 develop a game-changing education ecosystem.

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 FOR THE THREE MONTHS ENDED 31 MARCH 2015**

	Three Months Ended		
	31/03/2015	31/12/2014	31/03/2014
	(Unaudited)	(Unaudited)	(Unaudited)
	RMB '000	RMB '000	RMB '000
Revenue	246,216	282,880	217,091
Cost of revenue	<u>(39,023)</u>	<u>(36,342)</u>	<u>(21,084)</u>
Gross profit	207,193	246,538	196,007
Other income and gains	26,544	32,464	47,348
Selling and marketing expenses	(30,826)	(51,206)	(29,130)
Administrative expenses	(106,926)	(120,876)	(56,875)
Development costs	(87,889)	(89,278)	(40,954)
Other expenses	(5,556)	(11,977)	(1,893)
Share of losses of associates	(3,545)	(1,715)	(88)
Operating (loss) profit	(1,005)	3,950	114,415
Interest income on pledged bank deposit	1,590	475	841
Exchange loss on pledged bank deposit and secured bank borrowing	-	-	(4,163)
Net gain on derivative financial instrument	-	-	4,726
Gain on disposal of held-for-trading investment	1,401	-	-
Net (loss) gain on held-for-trading investments	(9,741)	(16,905)	1,093
Finance costs	(817)	(235)	(1,117)
(Loss) profit before taxation	(8,572)	(12,715)	115,795
Taxation	(4,493)	(9,442)	(38,042)
(Loss) profit for the period	(13,065)	(22,157)	77,753
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	299	(461)	553
Total comprehensive (expense) income for the period	(12,766)	(22,618)	78,306

(Loss) profit for the period attributable to:

-Owners of the Company	(10,914)	(19,406)	79,662
-Non-controlling interests	(2,151)	(2,751)	(1,909)
	(13,065)	(22,157)	77,753

Total comprehensive (expense) income attributable to:

-Owners of the Company	(10,615)	(19,867)	80,215
-Non-controlling interests	(2,151)	(2,751)	(1,909)
	(12,766)	(22,618)	78,306

RMB cents

RMB cents

RMB cents

(Loss) earnings per share

- Basic	(2.21)	(3.78)	15.70
- Diluted	N/A	(3.82)	15.61

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2015

	31 March 2015	31 December 2014
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	907,930	822,704
Prepaid lease payments	440,648	378,673
Intangible assets	140,142	141,254
Interests in associates	25,250	28,795
Available-for-sale investments	5,000	5,000
Loan receivables	19,181	18,327
Deposits made for acquisition of property, plant and equipment	10,270	35,967
Goodwill	40,013	40,013
Deferred tax assets	54	54
	1,588,488	1,470,787
Current assets		
Prepaid lease payments	2,731	2,708
Loan receivables	2,080	1,578
Trade receivables	72,443	51,072
Amounts due from customers for contract work	8,303	7,252
Other receivables, prepayments and deposits	162,079	210,098
Amount due from a related company	1,704	1,704
Amounts due from associates	635	367
Held-for-trading investments	196,387	211,584
Pledged bank deposit	237,703	236,805
Bank deposits	965,465	1,999,644
Bank balances and cash	2,113,360	1,036,788
	3,762,890	3,759,600
Current liabilities		
Trade and other payables	179,857	209,214
Amounts due to customers for contract work	686	424
Deferred income	23,877	25,595
Amount due to a related company	1,008	1,891
Amount due to an associate	394	8
Convertible preferred shares	260,474	-
Secured bank borrowing	237,703	236,805
Income tax payable	109,483	137,648
	813,482	611,585
Net current assets	2,949,408	3,148,015
Total assets less current liabilities	4,537,896	4,618,802

Non-current liabilities

Other payables	-	1,283
Deferred tax liabilities	117	116
	117	1,399

Net assets	4,537,779	4,617,403
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Capital and reserves

Share capital	36,469	36,943
Share premium and reserves	4,449,874	4,529,971

Equity attributable to owners of the Company	4,486,343	4,566,914
Non-controlling interests	51,436	50,489
	4,537,779	4,617,403