

[For Immediate Release]

NetDragon Announces 2015 Second Quarter and Interim Financial Results

Robust Gaming Business Performance Fueled by Player Traction in Calibur of Spirit; Education Product Set for Commercialization

[Hong Kong, August 27, 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 unaudited financial results for the second quarter and the first half year of 2015 ended June 30, 2015. Management will host a conference call and webcast to discuss the results at 8 p.m. Hong Kong Time on August 27, 2015.

Financial Highlights for the Second Quarter of 2015

- Revenue was RMB266.0 million, an increase of 8.0% quarter-over-quarter and 15.6% year-over-year.
- Gross profit was RMB223.0 million, an increase of 7.7% quarter-over-quarter and 7.1% year-over-year.
- Operating loss was RMB5.5 million.
- Non-GAAP operating profit¹ was RMB1.8 million.
- Loss attributable to owners of the Company was RMB7.5 million.
- Basic loss per share was RMB1.51 cents.

Financial Highlights for the First Half of 2015

- Revenue was RMB512.2 million, a year-over-year increase of 14.5%.
- Gross profit was RMB430.3 million, a year-over-year increase of 6.4%.
- Non-GAAP operating profit¹ was RMB9.2 million.
- Loss attributable to owners of the Company was RMB18.4 million.
- Basic loss per share was RMB3.72 cents.
- The company has declared an interim dividend of HK\$ 0.10 per share for the six months ended 30 June 2015, which will be paid to shareholders whose names appeared on the register of members of the Company on 15 September 2015.

Operational Highlights for the Second Quarter of 2015²

- Peak concurrent users (“PCU”) for online games were 708,000, an increase of 0.7% quarter-over-quarter.
- Average concurrent users (“ACU”) for online games were 318,000, an increase of 2.9% quarter-over-quarter.

“We finished the first half of the year on a high note with another quarter of solid revenue growth.” commented Mr. Dejian Liu, Chairman and Executive Director of NetDragon. “Total revenue for the first half of this year increased 14.5% over last year to RMB512.2 million and grew at a healthy 8.0% quarter-over-quarter and 15.6% year-over-year during the second quarter of 2015 to RMB266.0 million. Our games business continued to gain strong growth momentum during the first half of the year as well, with revenue increasing 7.3% year-over-year to RMB463.2 million and 6.5% quarter-over-quarter and 7.4% year-over-year to RMB238.9 million during the second quarter of 2015.”

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

²The PCU and ACU data includes the new micro-client game Calibur of Spirit since Q4 2014

“We further consolidated our market position in the gaming space during the first half of 2015 by strengthening our portfolio with the launch of new gameplay and expansion packs including updates for our flagship games Eudemons Online and Conquer Online. Our new game Calibur of Spirit, has received very positive market feedback with record high monthly revenue of approximately RMB26 million in May and PCU of over 400,000 in July 2015. We expect this outstanding performance to continue going forward. On the operational front, PCU and ACU reached 708,000 and 318,000 respectively in the second quarter of 2015. We continue to invest internal R&D resources into developing different game genres, such as Tiger Knight, a 3D action strategy game based during the well-known Three Kingdoms period in China’s first-to-market horse-riding game, which is scheduled to be officially launched by the end of this year. We expect to launch two to three new mobile games to further enrich our product portfolio and expand revenue streams during the second half of 2015.”

Mr. Liu added, “Our online education business remains a key strategic focus. We are on the verge of completing the final stage of development for our education product targeted for first-phase commercialization, which we expect to commence imminently and will cover over 15 cities. Our education product comprises of an ecosystem that integrates learning, teaching, assessment, communications and social networking all in one platform. We also aim to provide on our platform the richest education content in terms of both volume and quality. Last but not least, we look forward to our pending acquisition of Promethean World Plc, which upon completion will provide us with a global market reach.”

Second Quarter 2015 Unaudited Financial Results

Revenue

Revenue was RMB266.0 million, an increase of 8.0% from RMB246.2 million in the previous quarter and an increase of 15.6% from RMB230.1 million during the same quarter last year.

Revenue generated from China was RMB221.3 million, an increase of 8.4% from RMB204.2 million in the previous quarter and an increase of 8.8% from RMB203.5 million in the same quarter last year. The sequential increase in revenue was mainly due to the increases in revenue from Calibur of Spirit and Eudemons Online Pocket Version.

Revenue generated from other geographical markets was RMB44.7 million, an increase of 6.2% from RMB42.0 million in the previous quarter and an increase of 67.6% from RMB26.6 million in the same quarter last year. The sequential increase was mainly due to increases in revenue from Cherrypicks, the Company’s mobile technology and mobile marketing subsidiary.

Gross profit and gross margin

Gross profit was RMB223.0 million, an increase of 7.7% from RMB207.2 million in the previous quarter and an increase of 7.1% from RMB208.2 million in the same quarter last year. Gross margin was 83.9%, compared with 84.2% in the previous quarter and 90.5% in the same quarter last year. The decrease in gross margin in 2015 was predominantly due to increased revenue contribution from Cherrypicks, whose margin from its enterprise mobile application development business is lower than the Company’s gaming business. Cherrypicks was acquired by the Company during the second half of 2014.

Operating expenses

Selling and marketing expenses were RMB39.3 million, representing an increase of 27.5% from RMB30.8 million in the previous quarter and an increase of 17.0% from RMB33.6 million during the same period last year. The sequential increase in selling and marketing expenses was mainly due to increased advertising and promotional expenses to drive up traction for Calibur of Spirit and to launch the expansion pack for Eudemons Online in May.

Administrative expenses were RMB118.2 million, representing an increase of 10.5% from RMB106.9 million in the previous quarter and an increase of 64.9% from RMB71.6 million during the same period last year. The increase in administrative expenses was mainly due to a combination of increases in (i) staff headcount in line with the Company's business expansion, (ii) merger and acquisition legal and professional fees and (iii) exchange loss on foreign currencies.

Development costs were RMB96.1 million, representing an increase of 9.4% from RMB87.9 million in the previous quarter and an increase of 86.0% from RMB51.7 million during the same period last year. The increase in development costs was mainly due to an increase in staff costs as the Company continued to increase its education business research and development efforts.

Other expenses were RMB3.2 million, representing a decrease of 42.7% from RMB5.6 million in the previous quarter and a decrease of 80.7% from RMB16.5 million during the same period last year.

Operating (loss) profit

Operating loss was RMB5.5 million, compared to operating loss of RMB1.0 million during the previous quarter.

Taxation

Taxation was RMB7.5 million, an increase of 66.9% from RMB4.5 million in the previous quarter and a decrease of 40.2% from RMB12.5 million during the same quarter last year.

(Loss) profit for the Period

Loss for the Period was RMB12.6 million, compared with loss of RMB13.1 million in the previous quarter and profit of RMB63.8 million in the same quarter last year.

Basic loss per share was RMB1.51 cents, compared with the basic loss of RMB2.21 cents in the previous quarter and the basic and diluted earnings of RMB12.54 cents and RMB12.50 cents, respectively, in the same quarter last year.

Liquidity

As of June 30, 2015, NetDragon had bank deposits, bank balances and cash, pledged bank deposits and held-for-trading investments of approximately RMB3,338.3 million, compared with RMB3,484.8 million as of December 31, 2014.

Business Developments

Games Business

(1) Online games

The new expansion pack for the Company's flagship game Eudemons Online officially began open-beta testing in May 2015. During the first quarter of 2015, new gameplay was added to the Company's other flagship title Conquer Online which resulted in record high revenue from the English version during the period. The game's market share was further consolidated with the launch of a new class update titled The Rhapsody of Ice and Fire: Taoist Ascending in celebration of its anniversary in April 2015. A new expansion pack for Conquer Online is on track for a third quarter 2015 launch.

Calibur of Spirit, the Company's first MOBA micro-client game, officially began open-beta testing on Tencent's platform in January 2015. It has since recorded significant player growth thanks to its efficient micro-client login system and fast paced gameplay and battle modes. Calibur of Spirit generated record high monthly gross revenue of approximately RMB26 million in May 2015 with peak concurrent users of over 400,000 in July 2015. The Portuguese version of Calibur of Spirit began alpha testing in March 2015. The Company is currently developing multiple foreign language versions as well as a mobile game version of Calibur of Spirit to leverage the user base and brand value of this popular game.

Tiger Knight, NetDragon's upcoming 3D action strategy game, has won widespread praise from players for its vivid and realistic reproduction of legendary army battle scenes and their visual effects. During its research and development phase, Tiger Knight was among the games listed on Sina's "China Games Weight Rankings" and was awarded as one of "Top Online Games of the Year" and "New Games of the Year". The Chinese version of Tiger Knight began a new round of alpha testing during the third quarter of 2015 and will officially be launched by the end of 2015.

(2) Mobile games

Eudemons Online Pocket Version continues to generate solid operational metrics since open-beta testing began in January 2015. Its traditional Chinese version was formally released in Hong Kong and Taiwan in April 2015. In June 2015, Eudemons Online Pocket Version released a BOSS version on the App Store that was quickly ranked among the Top 10 paid apps. Eudemons Online Pocket Version's first expansion pack began official open-beta testing in August 2015. Looking forward, the Company plans to expand Eudemons Online Pocket Version's presence in overseas markets. The Android version of 2.5D martial arts mobile role-playing game Blade & Sword began all channels testing in June 2015 with plans for formal launch by the end of 2015.

The Company continues to invest in its overseas mobile game pipeline. Overseas versions of NetDragon's first person shooting game, Dead Union, and a mobile card game will start their alpha testing during the second half of 2015 and are expected to be officially launched during the fourth quarter of 2015.

Online and Mobile Education

During the first half of 2015, NetDragon's online and mobile education business continued to gain strong growth

momentum and record remarkable progress on various fronts.

(1) Products and Contents

The Company made significant progress in building a dynamic and engaging educational ecosystem that will create a fun and effective learning experience and enable a seamless connection between teachers, students and parents. The Company is on the verge of completing the final stage of development for its education product targeted for first-phase commercialization.

On the hardware front, the Company's "101 student tablet" has gone through several internal design iterations and is ready for large scale deployment. On the software front, the Company's initial product will center around its collaborative classroom product which aims to provide a revolutionary teaching and learning experience within the classroom. Integrated within the ecosystem is an educational content repository that covers primary and secondary school curriculum and all major academic subjects, including both licensed and self-developed content. The Company's Instant Messaging Platform has gone through a vigorous development cycle and will be integrated within the Company's other software modules to ensure a seamless user experience.

(2) Go to Market

The Company's market penetration strategy focuses on forming a large scale active user base by combining B2B and online B2C models. While B2B model is executed through channel building and is a vital step for penetrating into new regional markets, the Company will leverage its deep internet B2C expertise to scale up users and monetization through online B2C model. As part of its efforts in the B2B model, the Company has built up a national distribution network and has established a sales team covering 6 major regions and over 20 provinces in China.

The Company expects to ramp up commercialization efforts within the next several months in line with start of the new school year, and targets to achieve sales coverage in over 15 cities. To ensure a smooth product and service roll-out, this first-phase commercialization will be controlled to cover initially 500-1,000 classrooms by the end of this year.

(3) Merger and Acquisitions

The Company continued to build traction with its M&A initiatives during the first half of 2015. In June 2015, the Company signed a sale and purchase agreement to conditionally acquire a 100% equity interest in ChiVox Co., Ltd ("ChiVox"). The Company is on track to complete this acquisition by September 2015. With this acquisition, NetDragon will integrate ChiVox's best-in-class intelligent voice and speech technology into its platform, which will create a very high entry barrier to competing education platforms in the area of language assessment. In July 2015, the Company announced its intention to make a recommended offer for the entire issued and to be issued share capital of Promethean World Plc for a total consideration of £84.8 million (equivalent to US\$131.5 million). Promethean is a global leader in interactive learning technology with a substantial user base and a well-known brand with the reputation for providing high quality education products. .

(4) Fundraising

In February 2015, the Company'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 fully-diluted post-money valuation of US\$477.5 million.

Non-GAAP Financial Measures

To supplement the consolidated results 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 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 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 gain (loss) on pledged bank deposit, secured bank borrowing and convertible preferred shares, net gain on derivative financial instrument, gain on disposal of held-for-trading investment, net (loss) gain on held-for-trading investments and finance costs.

Management Conference Call

NetDragon will host a management conference call and webcast to review its 2015 second quarter and interim results on Thursday, August 27, 2015, at 8pm Hong Kong time.

Details of the live conference call are as follows:

International Toll	65-6713-5090
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 “2015 Interim 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 AND SIX MONTHS ENDED 30 JUNE 2015**

	Three Months Ended		Six Months Ended	
	30/06/2015	31/03/2015	30/06/2015	30/06/2014
	RMB '000	RMB '000	RMB '000	RMB '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	266,009	246,216	512,225	447,235
Cost of revenue	<u>(42,948)</u>	<u>(39,023)</u>	<u>(81,971)</u>	<u>(42,972)</u>
Gross profit	223,061	207,193	430,254	404,263
Other income and gains	29,989	26,544	56,533	88,603
Selling and marketing expenses	(39,307)	(30,826)	(70,133)	(62,720)
Administrative expenses	(118,172)	(106,926)	(225,098)	(128,520)
Development costs	(96,142)	(87,889)	(184,031)	(92,641)
Other expenses	(3,186)	(5,556)	(8,742)	(18,384)
Share of losses of associates	(1,767)	(3,545)	(5,312)	(233)
Operating (loss) profit	(5,524)	(1,005)	(6,529)	190,368
Interest income on pledged bank deposit	1,600	1,590	3,190	1,681
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and convertible preferred shares	646	-	646	(6,269)
Net gain on derivative financial instrument	-	-	-	7,463
Gain on disposal of held-for-trading investment	-	1,401	1,401	-
Net (loss) gain on held-for-trading investments	(991)	(9,741)	(10,732)	1,154
Finance costs	(823)	(817)	(1,640)	(2,249)
(Loss) profit before taxation	(5,092)	(8,572)	(13,664)	192,148
Taxation	(7,501)	(4,493)	(11,994)	(50,589)
(Loss) profit for the period	(12,593)	(13,065)	(25,658)	141,559
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	(428)	299	(129)	582
Total comprehensive (expense) income for the period	(13,021)	(12,766)	(25,787)	142,141
(Loss) profit for the period attributable to				
-Owners of the Company	(7,460)	(10,914)	(18,374)	143,492
-Non-controlling interests	(5,133)	(2,151)	(7,284)	(1,933)
	(12,593)	(13,065)	(25,658)	141,559

**Total comprehensive (expense) income
attributable to:**

-Owners of the Company	(7,888)	(10,615)	(18,503)	144,074
-Non-controlling interests	(5,133)	(2,151)	(7,284)	(1,933)
	<u>(13,021)</u>	<u>(12,766)</u>	<u>(25,787)</u>	<u>142,141</u>
	RMB cents	RMB cents	RMB cents	RMB cents
(Loss) earnings per share				
-Basic	(1.51)	(2.21)	(3.72)	28.24
-Diluted	N/A	N/A	N/A	28.00

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 June 2015

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	1,084,365	822,704
Prepaid lease payments	440,001	378,673
Intangible assets	137,770	141,254
Interests in associates	23,483	28,795
Available-for-sale investments	5,000	5,000
Loan receivables	19,736	18,327
Deposits made for acquisition of property, plant	11,443	35,967
Goodwill	40,013	40,013
Deferred tax assets	54	54
	<u>1,761,865</u>	<u>1,470,787</u>
Current assets		
Prepaid lease payments	2,732	2,708
Loan receivables	2,373	1,578
Trade receivables	68,420	51,072
Amounts due from customers for contract work	11,585	7,252
Other receivables, prepayments and deposits	94,584	210,098
Amount due from a related company	1,704	1,704
Amounts due from associates	856	367
Held-for-trading investments	195,396	211,584
Pledged bank deposit	236,596	236,805
Bank deposits	1,463,502	1,999,644
Bank balances and cash	1,442,821	1,036,788
	<u>3,520,569</u>	<u>3,759,600</u>
Current liabilities		
Trade and other payables	197,569	209,214
Amounts due to customers for contract work	1,016	424
Deferred income	24,187	25,595
Amount due to a related company	1,957	1,891
Amount due to an associate	677	8
Convertible preferred shares	259,828	-
Secured bank borrowing	236,596	236,805
Income tax payable	97,182	137,648
	<u>819,012</u>	<u>611,585</u>
Net current assets	<u>2,701,557</u>	<u>3,148,015</u>
Total assets less current liabilities	<u>4,463,422</u>	<u>4,618,802</u>

Non-current liabilities		
Other payables	-	1,283
Deferred tax liabilities	116	116
	116	1,399
Net assets	4,463,306	4,617,403
Capital and reserves		
Share capital	36,687	36,943
Share premium and reserves	4,380,429	4,529,971
Equity attributable to owners of the Company	4,417,116	4,566,914
Non-controlling interests	46,190	50,489
	4,463,306	4,617,403