

[For Immediate Release]

## **NetDragon Websoft Inc. Announces 2013 Second Quarter and Interim Results**

***2Q Revenues Increased 19.5% Over 1Q 2013; Net Profit Increased 32.6% Over 1Q 2013***

***Online Games and Mobile Internet Businesses Maintained Steady Growth***

[August 23, 2013, HONG KONG] **NetDragon Websoft Inc.** ("NetDragon"; Stock Code: 777), a leading developer and operator of online games and mobile Internet platforms in China, today announced its interim financial results for the period ended June 30, 2013. A conference call and webcast is scheduled for August 23, 2013 at 7:00pm Hong Kong time (7:00am Eastern Standard Time, August 23) to review the company's performance and recent business developments.

### **Second Quarter 2013 Financial and Operational Highlights**

- Total revenues were RMB 426.1 million, up 19.5% over the first quarter of 2013("QoQ") and up 54.3% over the second quarter of 2012("YoY");
- Revenue from Online Games was RMB 224.2 million, up 5.7% QoQ and up 11.5% YoY;
- Revenue from Mobile Internet was RMB 201.9 million, up 39.5% QoQ and up 168.8% YoY;
- Gross profit was RMB 385.5 million, up 24.3% QoQ and up 65.0% YoY;
- Operating profit was RMB 204.3 million, up 59.5% QoQ and up 131.4% YoY;
- Non-GAAP operating profit<sup>1</sup> was RMB 236.5 million, up 34.8% QoQ and up 143.6% YoY;
- Profit attributable to the owners of the Company was RMB 124.6 million, up 11.5% QoQ and up 176.7% YoY;
- Non-GAAP profit attributable to the owners of the Company was RMB 156.7 million, up 15.0% QoQ and up 98.0% YoY;
- Profit for the period was RMB 154.3 million, up 32.6% QoQ and up 243.0% YoY;
- Non-GAAP profit for the period was RMB 186.4 million, up 32.4% QoQ and up 135.6% YoY;
- Basic earnings per share("EPS") for the second quarter of 2013 were RMB 24.65, while diluted EPS were RMB 24.48;
- Peak concurrent users ("PCU") for online games were 468,000, up 5.2% QoQ and down 19.6% YoY;
- Average concurrent users ("ACU") for online games were 255,000, up 7.6% QoQ and down 16.9% YoY;
- The Board has resolved to declare an interim dividend of HK\$ 0.20 per share on 19 September 2013 for the six months ended June 30, 2013, which will be paid to shareholders whose names appeared in the company registry on 9 September 2013. In addition, based on the Announcement on August 16, the Directors of NetDragon intend to use 50% of the net proceeds from the merger between 91 Wireless and Baidu as a special dividend to the Shareholders.

Mr. Liu Dejian, Chairman and Executive Director of NetDragon, commented, "During the first half of 2013, our revenue and net profit maintained steady growth, with total revenue increasing 52.6% over the first half of 2012 to RMB 783 million and net profit up 168.4% year over year to RMB 271 million. We are pleased with the financial and operational performance for the period and we are confident about the prospects for our company."

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

"Online games revenue continues to grow at a solid pace during the first half of this year, demonstrating the healthy development of our traditional online games business. New expansion packs ("EP") for our classic titles Eudemons Online and Zero Online were released during the second quarter. These new EPs undoubtedly enhanced the appeal of our titles to our new and existing users and contribute to the company's cash income."

"In the first half of this year, mobile game market in general continued to demonstrate blockbuster growth in China. We are now developing mobile games with full force to benefit from the rapid growth of the market by pursuing available opportunities. The upcoming mobile versions for our mature PC games, such as Eudemons Online, will enrich our core PC game portfolio and we have confident that it will be quickly favored by our users. Thanks to the large existing player base and our good reputation among our users. In addition, we are also accelerating the timetable on development and launching of our new mobile games. The focus on both PC-based and mobile games demonstrates our strong capabilities in innovation and development."

"We are excited about the performance of our mobile Internet business. As of June 30, revenue from our mobile Internet business increased by 187.6% year over year to RMB 347 million in the first half of this year. The users number of our major marketplaces has been continuously expanding as well, further solidify the leadership position for our two application distribution platforms in 91 Wireless."

"On August 14, NetDragon announced that its subsidiary 91 Wireless Websoft had entered into an Agreement and Plan of Merger with Baidu (Hong Kong) Limited ("Baidu", a wholly-owned subsidiary of Baidu, Inc.). We see there is tremendous potential from the long-term synergy between Baidu and 91 Wireless on businesses and strategies, strengthening 91 Wireless' presence in mobile Internet market. In addition, with the new financial resources, our proven track record in incubating online and high-growth opportunity projects, along with our strong team of R&D talents and professionals, we will consolidate our leading position in the online and mobile game segment, and most importantly, explore new opportunities with high growth potential. We believe that NetDragon will advance to a new stage of development with a brilliant outlook, and that our management will continue to create optimal value for our shareholders."

## **Second Quarter 2013 Business Highlights**

### **Online Games**

- Eudemons Online's new EP, "Dawn of Romance" was officially released. The new EP with a focus on love and marriage resonates with the emotional side among our players and received a favor response from our players.
- Zero Online's new EP "The One" was launched on May 31, driving the game to a record high in monthly revenue in June.
- iPad based Conquer Online launched a new EP "The Oriental Assassin" in May.
- The Celestial Saga, a 2.5D role-play mobile game based on NetDragon's in-house developed C3 game engine, conducted the first closed beta testing on May 23.
- NetDragon launched the updated versions for self-developed cross-platform mobile games, such as "Chaos Hero" and "Legend of the Emperor" etc., to enrich the detail of the games, so as to attract more players.
- Warring States, NetDragon's self-developed 2D SLG mobile game, launched its Korean version in June, successfully attracting Korean players and expanding into the Korean market.

## **Mobile Internet**

- In June, 2013, 91 Assistant was awarded with the "Gold Finger" Comprehensive Application Platform in the 2013 Global Excellent Mobile Terminal and Mobile Application of the Year Contest organized by iiMedia Research.

## **Recent Developments and Business Outlook**

### **Online Games**

- Way of the Five's new EP "Catastrophe in Fairland\*", was released on July 5.
- Caliber of Spirit, the world's first next generation 3D MOBA online game based on NetDragon's in-house developed S3 game engine, conducted the official open beta testing on Tencent's QGAME platform in July.
- Tou Ming Zhuang Online's new EP "Ce Ma Tian Xia\*" is scheduled for release in the third quarter of this year.
- The new EP for multilingual versions of Conquer Online, "Jianghu: Era of Chaos" is on track to be released in the third quarter of this year, and the mobile version of Conquer Online is scheduled for launch within the year.
- Ago of Egmont, NetDragon's first fantasy ARPG, will carry out a closed beta testing on August 20.
- In August, Changyou.com, Sohu's subsidiary, under an exclusive arrangement with NetDragon, will publish "War of Gods", NetDragon's self-developed anime style cultivated strategic game, on App Store in mainland China.
- Mobile version of Eudemons Online is scheduled to enter closed beta testing in the fourth quarter of this year.

### **Mobile Internet**

- On August 14, NetDragon announced that its subsidiary 91 Wireless Websoft has entered into an Agreement and Plan of Merger with Baidu (Hong Kong) Limited ("Baidu", a wholly-owned subsidiary of Baidu, Inc.). The aggregate merger consideration ("consideration") amounts to US\$ 1,900 million (approximately HK\$ 14,740 million). Taking into account the conditional declaration of a special dividend of approximately US\$ 52.06 million (approximately HK\$ 403.91 million) by 91 Wireless to its existing shareholders, the consideration has been adjusted to approximately US\$ 1,847.94 million (approximately HK\$ 14,336.13 million). Upon completion of the transaction, 91 Wireless shall terminate its application for the proposed listing of 91 Wireless shares on the GEM of the Hong Kong Stock Exchange. The transaction is subject to approval by NetDragon's shareholders at an extraordinary general meeting.

### **Others**

- On 22 July 2013 and 23 July 2013, NetDragon repurchased a total of 794,500 shares and 2,000,000 shares on the Stock Exchange, representing approximately 0.156% and 0.393% of the existing issued shares capital, at an aggregate consideration of HK\$ 50,948,020.

*\*Working Titles*

## Financial Highlights:

RMB('000)	2Q 2013	1Q 2013	2Q 2012	QoQ(%)	YoY(%)	1H 2013	1H 2012	YoY(%)
Revenue	<b>426,116</b>	356,725	276,133	19.5%	54.3%	<b>782,841</b>	513,108	52.6%
-Online Games	<b>224,159</b>	211,994	200,992	5.7%	11.5%	<b>436,153</b>	392,573	11.1%
-Mobile Internet*	<b>201,957</b>	144,731	75,141	39.5%	168.8%	<b>346,688</b>	120,535	187.6%
Gross Profit	<b>385,483</b>	310,066	233,675	24.3%	65.0%	<b>695,549</b>	442,375	57.2%
GPM	<b>90.5%</b>	86.9%	84.6%	3.6%	5.9%	<b>88.8%</b>	86.2%	2.6%
Operating Profit	<b>204,293</b>	128,091	88,289	59.5%	131.4%	<b>332,384</b>	160,481	107.1%
Non-GAAP Operating Profit	<b>236,468</b>	175,456	97,072	34.8%	143.6%	<b>411,924</b>	171,927	139.6%
Profit attributable to the owners of the Company	<b>124,614</b>	111,787	45,032	11.5%	176.7%	<b>236,401</b>	100,803	134.5%
Non-GAAP profit attributable to the owners of the Company	<b>156,732</b>	136,245	79,154	15.0%	98.0%	<b>292,977</b>	146,059	100.6%
Profit for the period	<b>154,288</b>	116,382	44,986	32.6%	243.0%	<b>270,670</b>	100,859	168.4%
Non-GAAP Profit for the period	<b>186,406</b>	140,840	79,108	32.4%	135.6%	<b>327,246</b>	146,115	124.0%
NPM	<b>36.2%</b>	32.6%	16.3%	3.6%	19.9%	<b>34.6%</b>	19.7%	14.9%
EPS-Basic (RMB cents)	<b>24.65</b>	22.19	8.75	11.1%	181.7%	<b>46.84</b>	19.65	138.4%
EPS-Diluted (RMB cents)	<b>24.48</b>	16.91	8.73	44.8%	180.4%	<b>41.12</b>	19.61	109.7%

\*Note: Mobile Internet revenue derived from third party apps and content with cooperation partners was recognized on gross basis for the first half of 2012. Whereas, this item was recognized on a net basis instead of gross basis since the third quarter of 2012.

## Metrics

### Online Games

	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012
PCU	<b>468,000</b>	445,000	521,000	525,000	582,000	600,000
ACU	<b>255,000</b>	237,000	287,000	281,000	307,000	297,000

## Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRSs, the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. These non-GAAP measures are not expressly permitted measures under HKFRSs and may not be comparable to similarly titled measures for other companies. The non-GAAP financial measures of the Group

exclude share-based payment expense, interest income on pledged bank deposit, exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares, net gain (loss) on derivative financial instruments and finance costs.

## Management Conference Call

NetDragon will host a management conference call and webcast to review its 2013 interim financial results ended June 30, 2013 on Friday, August 23, 2013 Hong Kong time.

Details of the live conference call are as follows:

**Time: 7:00 PM Beijing / Hong Kong Time / 7:00 AM Eastern Standard Time, 23 August, 2013**

International Toll	<b>65-6723-9381</b>
US Toll Free	<b>1-866-519-4004</b>
Hong Kong Toll Free	<b>800-930-346</b>
China Toll Free (for fixed line users)	<b>800-8190-121</b>
China Toll Free (for mobile users)	<b>400-6208-038</b>
Passcode	<b>NetDragon</b>

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](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 "2013 Interim Results Conference Call" and follow the registration instructions.

## About NetDragon

NetDragon Websoft Inc. (HKSE: 0777) is a leading innovator and creative force in China's online gaming and mobile Internet industries. Established in 1999, we are a vertically integrated developer & operator of online games and mobile Internet platforms. We launched our first self-made online game Monster & Me in 2002, followed by multiple titles including Eudemons Online, Conquer Online and Zero Online. We are also China's pioneer in overseas expansion, directly operating titles in overseas markets since 2003 in English, Spanish, Arabic and other languages. NetDragon has proven track record in incubating online gaming and mobile Internet projects over the years, including the No. 1 Chinese online game portal - 17173.com, and various well-known mobile Internet platforms such as 91 Assistant, HiMarket, 91 Launcher, 91 Panda Reader, sj.91.com and www.hiapk.com.

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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 2013**

	Three Months Ended		Six Months Ended	
	30/6/2013	31/3/2013	30/6/2013	30/6/2012
	RMB '000	RMB '000	RMB '000	RMB '000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Revenue</b>	<b>426,116</b>	356,725	<b>782,841</b>	513,108
Cost of revenue	<u><b>(40,633)</b></u>	<u>(46,659)</u>	<u><b>(87,292)</b></u>	<u>(70,733)</u>
<b>Gross profit</b>	<b>385,483</b>	310,066	<b>695,549</b>	442,375
Other income and gains	7,186	15,217	<b>22,403</b>	15,167
Selling and marketing expenses	<b>(39,109)</b>	(35,510)	<b>(74,619)</b>	(70,565)
Administrative expenses	<b>(84,616)</b>	(102,822)	<b>(187,438)</b>	(113,181)
Development costs	<b>(55,288)</b>	(54,660)	<b>(109,948)</b>	(95,950)
Other expenses	<b>(8,956)</b>	(4,820)	<b>(13,776)</b>	(16,707)
Share of losses of associates	<b>(312)</b>	(393)	<b>(705)</b>	(658)
Share of (loss) profit of a joint venture	<b>(95)</b>	1,013	<b>918</b>	-
<b>Operating Profit</b>	<b>204,293</b>	128,091	<b>332,384</b>	160,481
Interest income on pledged bank deposit	<b>1,896</b>	1,925	<b>3,821</b>	-
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares	<b>7,683</b>	(4,653)	<b>3,030</b>	(1,423)
Net (loss) gain on derivative financial instruments	<b>(8,015)</b>	38,360	<b>30,345</b>	(23,339)
Finance costs	<b>(1,507)</b>	(12,725)	<b>(14,232)</b>	(9,048)
<b>Profit before taxation</b>	<b>204,350</b>	150,998	<b>355,348</b>	126,671
Taxation	<b>(50,062)</b>	(34,616)	<b>(84,678)</b>	(25,812)
<b>Profit for the period</b>	<b>154,288</b>	116,382	<b>270,670</b>	100,859
Other comprehensive (expense) income: Item that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	<u><b>(513)</b></u>	<u>(112)</u>	<u><b>(625)</b></u>	<u>72</u>
<b>Total comprehensive income for the period</b>	<u><b>153,775</b></u>	<u>116,270</u>	<u><b>270,045</b></u>	<u>100,931</u>
Profit for the period attributable to:				
- Owners of the Company	<b>124,614</b>	111,787	<b>236,401</b>	100,803
- Non-controlling interests	<b>29,674</b>	4,595	<b>34,269</b>	56
	<u><b>154,288</b></u>	<u>116,382</u>	<u><b>270,670</b></u>	<u>100,859</u>
Total comprehensive income attributable to:				
- Owners of the Company	<b>124,101</b>	111,675	<b>235,776</b>	100,875
- Non-controlling interests	<b>29,674</b>	4,595	<b>34,269</b>	56
	<u><b>153,775</b></u>	<u>116,270</u>	<u><b>270,045</b></u>	<u>100,931</u>
	<b>RMB cents</b>	RMB cents	<b>RMB cents</b>	RMB cents
<b>Earnings per share</b>				
- Basic	<b>24.65</b>	22.19	<b>46.84</b>	19.65
- Diluted	<u><b>24.48</b></u>	<u>16.91</u>	<u><b>41.12</b></u>	<u>19.61</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(AS AT 30 JUNE 2013)**

	30 June 2013 (Unaudited) RMB '000	31 December 2012 (Audited) RMB '000
<b>Non-current assets</b>		
Property, plant and equipment	423,296	345,415
Prepaid lease payments	185,989	139,678
Investment property	15,931	16,217
Intangible assets	1,769	2,626
Interests in associates	1,926	11,793
Interests in a jointly venture	18,933	18,015
Available-for-sale investments	5,000	5,000
Loan receivables	9,652	9,969
Goodwill	12,534	12,534
Deferred tax assets	4,436	1,586
	<u>679,466</u>	<u>562,833</u>
<b>Current assets</b>		
Prepaid lease payments	2,902	2,902
Loan receivables	2,590	3,143
Trade receivables	84,516	61,427
Other receivables, prepayments and deposits	107,779	72,101
Held for trading investments	-	4,939
Amounts due from related companies	3,598	3,637
Amount due from a joint venture	1,288	3,060
Pledged bank deposit	-	194,405
Bank deposits	425,713	394,081
Bank balances and cash	1,409,797	1,142,825
	<u>2,038,183</u>	<u>1,882,520</u>
<b>Current liabilities</b>		
Trade and other payables	298,364	222,137
Deferred income	27,960	24,778
Amounts due to related companies	525	121
Amount due to an associate	-	5,600
Secured bank borrowing	-	183,595
Other financial liability	-	10,679
Income tax payable	74,693	66,355
	<u>401,542</u>	<u>513,265</u>
<b>Net current assets</b>	<u>1,636,641</u>	<u>1,369,255</u>
<b>Total assets less current liabilities</b>	<u>2,316,107</u>	<u>1,932,088</u>
<b>Non-current liabilities</b>		
Redeemable convertible preferred shares	-	195,115
Conversion option derivative liability	-	314,829
Deferred tax liabilities	17,959	6,141
	<u>17,959</u>	<u>516,085</u>
<b>Net assets</b>	<u>2,298,148</u>	<u>1,416,003</u>

**Capital and reserves**

Share capital	37,761	37,532
Share premium and reserves	1,942,066	1,356,317
Equity attributable to owners of the Company	1,979,827	1,393,849
Non-controlling interests	318,321	22,154
<b>Total equity</b>	<b>2,298,148</b>	<b>1,416,003</b>