

[For Immediate Release]

NetDragon Websoft Inc. Announces Third Quarter 2013 Financial Results

3Q Revenue up 65.7%YoY; Net Profit up 49.6% YoY

[28 November, 2013, Hong Kong] **NetDragon Websoft Inc.** (“NetDragon”, Stock code:777.HK), a leading developer and operator of online games and mobile Internet platforms in China, today announced its unaudited financial results for the third quarter ended 30 September, 2013 and is scheduled to hold a conference call and live webcast on 28 November, 2013 at 7:00pm Hong Kong Time (6:00am Eastern Daylight Time) to review the Company’s performance and recent business developments.

Third Quarter 2013 Financial and Operational Highlights

- Total revenues were RMB 480.9 million, up 12.8% over the second quarter of 2013 (“QoQ”) and up 65.7% over the third quarter of 2012 (“YoY”);
- Revenue from Continuing Operations was RMB 219.4 million, down 2.1% QoQ and up 7.5% YoY;
- Revenue from Discontinued Operations¹ was RMB 261.5 million, up 29.5% QoQ and up 203.8% YoY;
- Gross profit was RMB 431.6 million, up 2.0% QoQ and up 70.7% YoY;
- Operating profit was RMB 199.3 million, down 2.4% QoQ and up 57.0% YoY;
- Non-GAAP operating profit² was RMB 247.9 million, up 4.8% QoQ and up 87.5% YoY;
- Profit attributable to the owners of the Company was RMB 97.2 million, down 22.0% QoQ and up 1.9% YoY;
- Non-GAAP profit attributable to the owners of the Company was RMB 147.7 million, down 5.8% QoQ and up 29.4% YoY;
- Profit from continuing operations was RMB 37.0million, down 52.8% QoQ and down 58.2% YoY;
- Profit from discontinued operations was RMB 105.6 million, up 39.0% QoQ and up 1451.1% YoY;
- Profit for the period was RMB 142.6million, down 7.6% QoQ and up 49.6% YoY;
- Non-GAAP profit for the period was RMB 193.0million, up 3.5% QoQ and up 69.3% YoY;
- Basic earnings per share (“EPS”) from continuing and discontinued operations were RMB 19.14 cents, diluted EPS from continuing and discontinued operations were RMB 19.02 cents;
- Basic EPS from continuing operations was RMB7.27 cents, diluted EPS from continuing operation was RMB 7.22cents;
- Basic EPS from discontinued operations was RMB 11.87 cents, diluted EPS from discontinued operations was RMB 11.80 cents;
- Peak concurrent users (“PCU”) for online games were 510, 000, up 9.0% QoQ and down 2.9% YoY.
- Average concurrent users (“ACU”) for online games were 270,000, up 5.9% QoQ and down3.9% YoY

Mr. Liu Dejian, Chairman and Executive Director of NetDragon, commented, “In the third quarter of 2013, NetDragon maintained growth momentum in total revenues, which increased to RMB 480.9 million, representing 12.8% quarter-over-quarter and 65.7% year on year. The management is confident in the growth prospect of the Company as we enter our next stage of development following the sale of 91 Wireless.

¹ During the period, the mobile Internet segment has been classified as discontinued operations as a result of the disposal of the entire equity interest of 91 Wireless Websoft Limited and its subsidiaries.

² See “Non-GAAP Financial Measures” section for more details on the reasons for presenting these measures

“During the quarter, our core online game business continued to generate stable revenue and strong profitability for the Company. Several of our games including “Conquer Online” and “Way of Five” launched new expansion packs during the quarter. In respect of Web Game, “Caliber of Spirit”, a 3D MOBA webgame based on NetDragon's in-house developed S3 game engine, conducted the official open beta testing in July. The latest expansion pack “Gods Recovery¹” of “Eudemons Online” is currently in official open beta testing. The timely development and release of expansion packs of our core games continues to represent our efforts to increase the interest of our existing players and stimulate new players to play our games.

“As for the mobile Internet business, we will shift our strategic focus to research & development and operation of original mobile games, a field where we have gained core competitiveness from our long history of game development expertise. In addition to the mobile games that were previously launched, we have successively launched a series of high quality mobile games, including “Age of Egmont”, “War of Gods”, “Crazy Horde” and “The Celestial Saga”, further enriching our mobile game portfolio. We believe that, by leveraging our experiences accumulated in research & development and operation of games, as well as our open minded seeking win-win cooperation with operators, our mobile Internet business will move into a new stage of growth and become an increasing revenue contributor to NetDragon.

“During the period under review, the disposal of our subsidiary, 91 Wireless, to Baidu has become a major milestone in the history of the Internet and mobile industry and in the wake of completion of this disposal; we believe NetDragon will enter another exciting phase of development. After the payout of the special dividend of HK\$7.77 per share to reward the shareholders for their long-term support, the remaining proceeds from disposal of 91 Wireless will provide strong financial support to NetDragon to continue to incubate our game business and new strategic emerging businesses, as well as lay solid foundation for us to develop new Blue Ocean projects. We have noted that, with the rapid social and economic development in China as well as the popularization of mobile Internet and other information technology, China' market for online education is expanding rapidly. After over two years of development, we have completed the initial stage of business model exploration and resources accumulation in online education and going forward, the Company will focus on ramping up our business volume in this space. Recently, we have announced the establishment of a joint venture company with Hon Hai and Vision Knight Capital to specialize in the research & development and promotion of related products.”

¹ Working title

Business Highlights for the Third Quarter of 2013

Game Business

- MMO Series

- Launched a new EP of “Way of Five” called “Catastrophe in Fairland” in July.
- “Tou Ming Zhuang Online”²’s new EP “Ce Ma Tian Xia²” was released in August.
- Launched multilingual versions of new EP of “Conquer Online” called “Jianghu: Era of Chaos” with English, French, Spanish and so forth in succession.
- With integration of various subjects such as science fiction, fantasy, mystique and so forth, “Caliber of Spirit”, the first 3D next-generation MOBA webgame based on the Company in-house developed S3 engine, conducted the official open beta testing on Tencent’s QQGAME platform in July and completed the optimisation of functional versions in August.

- Mobile Games

- The first fantasy style ARPG “Age of Egmont” of the Company commenced closed beta testing in August.
- In August, Changyou.com, under an exclusive arrangement with NetDragon, launched “War of Gods”, NetDragon’s self-developed anime style cultivated strategic game, on App Store in mainland China.
- “The Pirate”, NetDragon’s first in-house developed role-play turn-based mobile game, was officially launched in August.
- “The Celestial Saga”, NetDragon’s in-house developed 2.5D action role-play mobile game, was officially released in July.
- Launched the updated versions of our self-developed cross-platform mobile games such as “Warring States”, “Chaos Hero” and “Legend of Emperor” in order to enhance the game quality and attract new players.

Others

- On 9 September, NetDragon was selected as a constituent stock of Hang Seng Family Index, are cognition for the Company’s strength, brand, corporate governance and influence in the capital market.
- On 19 September, the Company distributed 2013 interim dividend of HK\$0.20 per share to shareholders, with an aggregate amount of cash dividends of RMB81,329,000.
- During the review period, the number of shares repurchased by the Company was 5,685,500, accounting for 1.1% the shares of the Company in issue, while the total consideration paid was approximately HK\$104,000,240.

² Working title.

Recent Developments and Business Outlook

Game Business

- MMO Series

- The new EP for “Eudemons Online” called “Gods Recovery” commenced internal testing in September and official open beta testing on 31 October.
- The overseas version of “Conquer Online” will be subject to a comprehensive revision and upgrade in the fourth quarter, which will significantly enhance game perspective and controls for the players, so as to further consolidate the game’s leading position in the overseas market.

- Mobile Games

- In October, the traditional Chinese version of “Crazy Horde”, the Company’s first ARPG mobile online game, was officially launched in Hong Kong, Macao and Taiwan markets where traditional Chinese characters are used. On the first day of the release, the game ranked the first on the list of free games on App Store in the traditional Chinese markets and the top three on the list of hot free iPhone App. Currently, the version for Android has started internal testing.
- The mobile version of “Eudemons Online” has been undergoing closed beta testing and will carry out internal testing within the year. The game is estimated to operate online 1H 2014. It is believed that the sizable number of players and popularity accumulated in the online version of this game will greatly facilitate the growth of this mobile game.
- “Fatal Fighter”, the Company’s self-developed “beat-em-up” side scrolling mobile game, with the theme of travelling through time with extra-sensory powers, entered stress testing in October. It is expected that testing will be conducted on the 91 platform in December and official release is expected to be in the beginning of 2014.
- The mobile version of English version of “Conquer Online” is planned to be launched in the fourth quarter and will be inter-compatible with the iPad version. This will provide more playing options for the players overseas.
- “War of Gods”, independently developed by the Company, is a fostering strategic type of mobile game integrating leisure strategy, instantaneous fighting and social group mutual interactions with Chinese myths as background. The iOS version will be launched in the Vietnam market in the fourth quarter and the Android version of the game is planned to be released in the Chinese mainland market in the beginning of 2014.

Others

- The Company is currently actively building a new Changle campus of Fuzhou Software Technology Vocational College, covering an area of 536 Mu. The preliminary planning and design of the project and the task of site selection have been accomplished thus far, and the new campus is planned to be completed and come into service by the end of 2014. In the future, the enrollment scale of the college will be approximately 8,000 students.
- On 30 October, NetDragon BVI, Foxteq Holding Inc., a indirectly wholly owned subsidiary of Hon Hai Precision Industry Co., Ltd. and Vision Knight Capital (China) Fund I, L.P. entered into a Memorandum of Understanding to jointly operate and explore the online education market.
- On 1 October, the disposal of 57.41% interest in 91 Wireless, NetDragon’s subsidiary, to Baidu was completed, with total consideration of US\$1,060.9 million (approximately HK\$8,231 million). 50% of the net proceeds has been used as special dividend to existing NetDragon shareholders. The Company ceased to hold any interest in 91 Wireless and each member of 91 Wireless Group ceased to be a subsidiary of the Company.
- On 6 November 2013, the Company distributed special dividend to shareholders whose names appeared on the register of members of the Company at the close of business on 29 October 2013 of HK\$7.77 per share.

Appointment of Chief Financial Officer

Since October, Mr. Ben Yam joined NetDragon as Chief Financial Officer to be responsible for financial management, corporate finance and investor relations. Mr. Yam has over 15 years of professional experience in financial services spanning private equity, corporate finance and auditing, and has served as an active board member of several venture-capital backed portfolio companies. He holds a Bachelor of Commerce Degree from the University of British Columbia with majoring in accounting. He is also a Chartered Accountant, a member of the Hong Kong Institute of Certified Public Accountants and CFA charter holder.

Financial Highlights:

RMB('000)	3Q 2013	2Q 2013	3Q 2012	QoQ(%)	YoY(%)
Revenue	480,864	426,116	290,144	12.8%	65.7%
-Continuing Operations	219,364	224,159	204,067	-2.1%	7.5%
-Discontinued Operations*	261,500	201,957	86,077	29.5%	203.8%
Gross Profit from continuing and discontinued operations	431,588	385,483	252,786	12.0%	70.7%
GPM from continuing and discontinued operations	89.8%	90.5%	87.1%	-0.7%	2.7%
Operating Profit from continuing and discontinued operations	199,299	204,293	126,958	-2.4%	57.0%
Non-GAAP Operating Profit from continuing and discontinued operations	247,898	236,468	132,231	4.8%	87.5%
Profit attributable to the owners of the Company from continuing and discontinued operations	97,230	124,614	95,399	-22.0%	1.9%
Non-GAAP profit attributable to the owners of the Company from continuing and discontinued operations	147,702	156,732	114,133	-5.8%	29.4%
Profit for the period from continuing and discontinued operations	142,547	154,288	95,285	-7.6%	49.6%
Non-GAAP Profit for the period from continuing and discontinued operations	193,019	186,406	114,019	3.5%	69.3%
NPM from continuing and discontinued operations	29.6%	36.2%	32.8%	-6.6%	-3.2%
Basic EPS from continuing and discontinued operations (RMB cents)	19.14	24.65	18.95	-22.4%	1.0%
Diluted EPS from continuing and discontinued operations (RMB cents)	19.02	24.48	18.87	-22.3%	0.8%
Basic EPS from continuing operations (RMB cents)	7.27	15.49	17.60	-53.1%	-58.7%
Diluted EPS from continuing operations (RMB cents)	7.22	15.38	17.53	-53.1%	-58.8%

*Note: During the period, the mobile Internet segment has been classified as discontinued operations as a result of the disposal of the entire equity interest of 91 Wireless Websoft Limited and its subsidiaries.

Metrics
Online Games

	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012
PCU	510,000	468,000	445,000	521,000	525,000	582,000
ACU	270,000	255,000	237,000	287,000	281,000	307,000

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 third quarter financial results for three months ended September 30, 2013 on Thursday, November 28, 2013 Hong Kong time.

Details of the live conference call are as follows:

Time: 7:00 PM Beijing / Hong Kong Time / 6:00 AM Eastern Standard Time, November 28, 2013

International Toll	65-6723-9381
US Toll Free	1-866-519-4004
Hong Kong Toll Free	800-930-346
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 2013 Results Conference Call" and follow the registration instructions.

About NetDragon

NetDragon Websoft Inc. (777.HK) 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 MMORPGs and a cutting-edge R&D powerhouse. Established in 1999, NetDragon has always been devoted to research and development and committed to promoting the development of online gaming industry. We launched our first self-developed 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 a 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 and HiMarket, the largest third party application distribution platform.

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 30 SEPTEMBER 2013)

	Three Months Ended		
	30/9/2013	30/6/2013	30/9/2012
	(Unaudited)	(Unaudited and restated)	(Unaudited and restated)
	RMB '000	RMB '000	RMB '000
<u>Continuing operations</u>			
Revenue	219,364	224,159	204,067
Cost of revenue	(19,837)	(18,853)	(12,505)
Gross profit	199,527	205,306	191,562
Other income and gains	12,476	4,640	16,575
Selling and marketing expenses	(27,935)	(23,106)	(29,199)
Administrative expenses	(87,611)	(54,300)	(45,157)
Development costs	(45,349)	(37,550)	(33,797)
Other expenses	(1,259)	(1,577)	(5,473)
Share of profit of associates	(41)	20	(173)
Operating Profit	49,808	93,433	94,338
Interest income on pledged bank deposit	222	1,896	2,600
Exchange (loss)gain on pledged bank deposit and secured bank loan	(1,769)	7,683	6,827
Net loss on derivative financial instrument	-	(8,015)	(3,085)
Finance costs	(326)	(1,507)	(2,310)
Profit before taxation	47,935	93,490	98,370
Taxation	(10,974)	(15,168)	(9,892)
Profit for the period from continuing operations	36,961	78,322	88,478
Discontinued operations			
Profit for the period from discontinued operations	105,586	75,966	6,807
Profit for the period	142,547	154,288	95,285
Other comprehensive (expense)income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	(167)	(513)	59
Total comprehensive income for the period	142,380	153,775	95,344
Profit for the period attributable to:			
-Owners of the Company	97,230	124,614	95,399
-Non-controlling interests	45,317	29,674	(114)
	142,547	154,288	95,285

Total comprehensive income attributable to:

- Owners of the Company	97,063	124,101	95,458
- Non-controlling interests	45,317	29,674	(114)
Other comprehensive (expense)income:	142,380	153,775	95,344

RMB cents

RMB cents

RMB cents

Earnings per share

From continuing and discontinued operations

- Basic	19.14	24.65	18.95
- Diluted	19.02	24.48	18.87

From continuing operations

- Basic	7.27	15.49	17.60
- Diluted	7.22	15.38	17.53

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

	30 September 2013 (Unaudited) RMB '000	31 December 2012 (Audited) RMB '000
Non-current assets		
Property, plant and equipment	447,077	345,415
Prepaid lease payments	187,311	139,678
Investment property	15,857	16,217
Intangible assets	1,311	2,626
Interests in associates	1,366	11,793
Interest in a joint venture	-	18,015
Available-for-sale investments	5,000	5,000
Loan receivables	16,404	9,969
Deposits made for property, plant and equipment	26,898	-
Goodwill	12,534	12,534
Deferred tax assets	54	1,586
	713,812	562,833
Current assets		
Prepaid lease payments	2,583	2,902
Loan receivables	1,308	3,143
Trade receivables	22,260	61,427
Other receivables, prepayments and deposits	58,876	72,101
Held for trading investment	-	4,939
Amount due from related companies	4,069	3,637
Amount due from a joint venture	3	3,060
Pledged bank deposit	108,268	194,405
Bank deposits	415,000	394,081
Bank balances and cash	800,739	1,142,825
	1,413,106	1,882,520
Assets classified as held for sale	1,186,586	-
	2,599,692	1,882,520
Current liabilities		
Trade and other payables	443,347	222,137
Deferred income	25,740	24,778
Amount due to a related company	-	121
Amount due to an associate	-	5,600
Secured bank borrowing	110,036	183,595
Other financial liability	-	10,679
Income tax payable	25,422	66,355
	604,545	513,265
Liabilities associated with assets classified as held for sale	368,486	-
	973,031	513,265
Net current assets	1,626,661	1,369,255
Total assets less current liabilities	2,340,473	1,932,088

Non-current liabilities

Redeemable convertible preferred shares	-	195,115
Conversion option derivative liability	-	314,829
Deferred tax liabilities	-	6,141
	-	516,085

Net assets

	2,340,473	1,416,003
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Capital and reserves

Share capital	37,609	37,532
Share premium and reserves	1,893,480	1,356,317
Equity attributable to owners of the Company	1,931,089	1,393,849
Non-controlling interests	409,384	22,154
Total equity	2,340,473	1,416,003