

[For Immediate Release]

## **NetDragon Websoft Inc. Reports Fourth Quarter and Fiscal Year 2013 Financial Results**

***Full-year Revenue from Continuing Operations Up 7.1% Year on Year***

***Steady Growth in Online Game Business; Dynamic Business Project Remains on Track***

[March 27, 2014, 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 financial results for the fourth quarter and fiscal year ended December 31, 2013. A conference call and live webcast is scheduled for March 27, 2014 at 8:00 pm Hong Kong time (8:00 am U.S. Eastern Time) to review the Company's financial results and recent business developments.

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

- Revenue from continuing operations was RMB229.0 million, an increase of 4.4% over the third quarter of 2013 ("QoQ"), and keeping at a steady level as compared with the fourth quarter of 2012 ("YoY");
- Gross profit from continuing operations was RMB205.9 million, an increase of 3.2% QoQ and a decrease of 2.6% YoY;
- Operation loss from continuing operations was RMB1.7 million;
- Non-GAAP operating profit<sup>1</sup> from continuing and discontinued operations was RMB11.3 million;
- Profit attributable to owners of the Company from continuing and discontinued operations<sup>2</sup> was RMB5,807.1 million, an increase of 5,872.6% QoQ;
- Non-GAAP loss attributable to owners of the Company from continuing and discontinued operations was RMB7.5 million;
- Basic loss per share from continuing operations was RMB0.95 cents, diluted loss per share from continuing operations was RMB0.95 cents ;
- Basic earnings per share from continuing and discontinued operations was RMB1,145.41 cents, diluted earnings per share from continuing and discontinued operations was RMB1,138.30 cents ;
- Peak concurrent users ("PCU") for online games were 477,000, a decrease of 6.5% QoQ and a decrease of 8.4% YoY;
- Average concurrent users ("ACU") for online games were 266,000, a decrease of 1.5% QoQ and a decrease of 7.3% YoY;
- On 1 October 2013, the disposal of 57.41% equity interest in 91 Wireless, NetDragon's subsidiary, to Baidu was completed, with total consideration of US\$1.06 billion (approximately RMB6,520.4 million);
- On 6 November 2013, the Company paid the special dividend of HK\$7.77 per share to shareholders whose names appeared on the register of members of the Company at the close of business on 29 October 2013; and
- The Board of Directors has proposed a final dividend of HK\$0.20 per share subject to the final approval by the shareholders at the Annual General Meeting.

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

<sup>2</sup> As NetDragon sold all its equity interest in 91 Wireless and its subsidiaries during the reporting period, the 91 Wireless businesses are classified as Discontinued Operations in financial statements.

## Fiscal Year 2013 Financial Highlights

- Full-year revenue from continuing and discontinued operations for 2013 jumped to RMB1,492.7 million;
- Revenue from continuing operations was RMB884.5 million, an increase of 7.1% compared to 2012;
- Gross profit from continuing and discontinued operations was RMB1,333.1 million, an increase of 34.4% compared to 2012;
- Gross profit from continuing operations was RMB803.1 million, an increase of 4.1% compared to 2012;
- Operating profit from continuing and discontinued operations was RMB530.0 million, an increase of 29.9% compared to 2012;
- Operating profit from continuing operations was RMB202.8 million, a decrease of 38.8% compared to 2012;
- Non-GAAP operating profit from continuing and discontinued operations was RMB671.2 million, an increase of 51.6% compared to 2012;
- Profit attributable to owners of the Company from continuing and discontinued operations was RMB6,140.8 million, an increase of 15,574.8% over 2012;
- Non-GAAP profit attributable to owners of the Company from continuing and discontinued operations was RMB433.2 million, an increase of 17.7% over 2012;
- Profit for the year from continuing and discontinued operations was RMB6,222.4 million, an increase of 15,871.0% over 2012;
- Non-GAAP profit for the year from continuing and discontinued operations was RMB514.8 million, an increase of 40.0% over 2012;
- Basic earnings per share from continuing and discontinued operations was RMB1,213.44 cents, diluted earnings per share from continuing and discontinued operations was RMB1,181.10 cents;
- Basic earnings per share from continuing operations was RMB32.48 cents, diluted earnings per share from continuing operations was RMB31.75 cents; and
- During the year ended 31 December 2013, the Company repurchased a total of 5,685,500 shares on the Stock Exchange at an aggregate consideration of HKD104,000,240 before expenses.

Mr. Liu Dejian, Chairman and Executive Director of NetDragon, commented, "2013 was an important year during which NetDragon was able to reap the rewards and start a new journey. As a result of the joint efforts of all the employees, our full-year revenue from continuing and discontinued operations exceeded RMB1.49 billion, reaching a new high. The Company updated several of the games in operation including "Eudemons Online" and "Zero Online", constantly delivered even more exciting gaming experiences to players and extended the games' life cycle. Moreover, we continued to operate games in many countries and regions with marketing potential and ensured a substantial and healthy development of Company's online game business. The full-year revenue from the gaming business reached RMB 884.5 million, up 7.1% year on year."

"Meanwhile, we sold our subsidiary 91 Wireless to Baidu in 2013, yielding the recognition and rewards for the enormous resources and effort we devoted to mobile Internet business and laying a solid foundation for our new dynamic business project. After the completion of transaction, we shifted our strategy to the R&D and operating of mobile games by launching a variety of mobile games including "Crazy Horde", "War of Gods" and "The Pirate". We believed that mobile games will become another growth driver in the near term, driven by our years of experience in the R&D and operating of online games."

"In order to maximize our achievements, NetDragon has devoted more effort and resources to the development of

new strategic businesses by leveraging our strengths. Given the anticipated rapid growth of China's online education market, we built an overall framework for online education in 2013 with a focus on the large open cloud-based education platform which integrates back-end support and front-end applications and is designed for PC, mobile and many other types of terminals, as well as specific projects such as tablets for students. Leveraging its strong internet capacities and ample financial support, NetDragon plans to gradually build a highly inclusive lifelong learning system from kindergarten to universities offering continuing education, in a move to gain a competitive edge in the fast-growing online education market. Both management and employees are confident the success of NetDragon's short-and-long term developments."

## **Fourth Quarter 2013 Business Highlights**

### **Games Business**

#### **-- MMO Series**

- The new expansion pack of "Eudemons Online", "Gods Recovery", conducted the official open beta testing on October 31 and again received a warm response from players, demonstrating that this classic game is still compelling with the ongoing updates.
- The iPhone-based English version of "Conquer Online" was officially launched in December. It is inter-operable with the previously-released iPad version, providing more choices for oversea players.
- NetDragon continued in its attempts to diversify its products through its well-established overseas channels and became the exclusive agent for simulation-based web game "Total Football Online" in the Arabic-speaking world in late September 2013.

#### **-- Mobile Games**

- The iOS version of "War of Gods", NetDragon's self-developed cultivated strategic mobile game with Chinese myths as background and strategies normally associated with casual games, real-time combat and community interaction, was launched in Vietnam in October. The Android version is scheduled for release in China in early 2014, in a move to attract more players.
- "The Celestial Saga", NetDragon's in-house developed 2.5D action role-play mobile game, launched a new EP "Born to reign\*" with enhancement such as multiple sacred animal plays to provide richer experience.
- "Hero Cut", an original leisure action mobile game combined three types of games -parkour, card and touch-screen cut, began the channel testing in November. "Fatal Fighter", the Company's self-developed "beat-em-up" side scrolling mobile game based on a storyline of travelling through time with extra-sensory powers, entered the stress testing in October and commenced closed beta testing in November.
- "Crazy Horde", the Company's major mobile game of the year, simultaneously kicked off the beta testing for its simplified Chinese Android and iOS versions in 15 domestic and foreign mainstream channels. The traditional Chinese version "Crazy Primitive\*" was also officially launched and began the open beta testing in Hong Kong, Macau and Taiwan.
- The Arabic version of "The Pirate", NetDragon's first in-house developed role-play turn-based mobile game based on nautical theme, was officially launched on App Store in December. Two updated versions were subsequently launched in the first quarter of 2014.
- "Age of Egmont", the Company's first fantasy style ARPG, is in the closed beta testing stage. During this review period, this game was awarded as "2013 Annual Boyden Best Original Mobile Platform Online Game Award" from China International Digital Content Expo.

## **Education Business**

- On 30 October, NetDragon BVI, Foxteq Holding Inc., an 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 explore and conduct business in the online education and the related application markets.

## **Recent Developments and Business Outlook**

### **Game Business**

#### **- MMO Series**

- "Way of the Five" launched a new expansion pack "Demon is coming\*" in March 2014, with new classes and properties, significantly increase the interest value of the game.
- Eudemons Online's new expansion pack, "Dragon Knight - Apocalypse\*", entered the no-file-deleted closed beta testing on 25 March, 2014. This expansion pack will enrich the class system within the game again and launch an official beta testing in April 2014.
- "Caliber of Spirit", a 3D MOBA webpage developed in-house, is currently in the non-file-deleted testing stage, with more than 100,000 aggregate concurrent players.
- "Tiger Knight", NetDragon's self-developed new action strategy online game, is planned to commence a beta testing in the first half of 2014. This game, using the story of the Three Kingdoms, a period of Chinese history that is well-known and of high interest to both domestic and overseas players as background, enables the large-scale synchronous online battles.
- The English version of "Conquer Online" rolled out the new expansion pack "Wrath of the Trojan" on March 20, 2014.

### **Mobile Games**

- "Blade & Sword", NetDragon self-developed 2.5D martial arts role-play mobile game, carried out the non-file-deleted closed testing in January 2014.
- "Waku & Maou", a next-generation strategy game combined the features of both card and landscape turn-based games, conducted the first closed beta testing in March 2014.
- The mobile version of "Age of Egmont", the Company's first fantasy ARPG, will carry out an open beta test in the second quarter of 2014 and will be also available on several platforms, including PC, iOS and Android.
- The mobile version of "Eudemons Online", a free mobile game with a focus on feeding phantom beasts interspersed with PK gang fights and developed by NetDragon's core development team, entered the closed beta testing and is scheduled for an official launch in the third quarter of 2014. With the sizable player base and popularity in the MMORPG market, this mobile game is expected to be popular.
- "Fatal Fight", NetDragon's independently developed landscape-based fighting mobile game, will carry out an open beta testing in the second quarter of 2014.

## **Education Business**

- On January 24, 2014, NetDragon BVI entered into an agreement with Foxteq and Vision Knight Capital to collaborate in the exploration and business operation in the online education and related application market through the establishment of the wholly foreign owned enterprise and a limited liability company in the PRC at the proposed registered capital of US\$8,000,000 and RMB10,000,000 respectively.

*\*Working titles*

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- NetDragon will strengthen the strategic position of the online education business within the Group and further invest into this business through acquisitions and roll out of new products. The Company will enhance the education contents on "Open Cloud-based Education Platform" as the pillar of our online education business and boost the development of large scale cloud-based education platforms running on several terminals, including PC, smartphones and tablets.
  - Leveraging our strong internet capacities and experience in the R&D and operating of mobile platform products and combining the power of a world's leading 3C electronic product manufacturer in hardware production, NetDragon plans to introduce its first tablet with the own brand especially designed for students in the second half of 2014 with the advantages of smart tablets together with education software and huge volume of educational resources.

## Financial Highlights:

RMB('000)	4Q 2013	3Q 2013	4Q 2012	QoQ(%)	YoY(%)	2013	2012	YoY(%)
Revenue from continuing operations	<b>229,001</b>	219,364	229,104	4.4%	(0.04%)	<b>884,518</b>	825,744	7.1%
Gross profit from continuing operations	<b>205,931</b>	199,527	211,393	3.2%	(2.6%)	<b>803,092</b>	771,340	4.1%
Gross profit margin from continuing operations	<b>89.9%</b>	91.0%	92.3%	(1.1%)	(2.4%)	<b>90.8%</b>	93.4%	(2.6%)
Operating (loss) profit from continuing operations	<b>(1,707)</b>	49,808	98,713	N/A	N/A	<b>202,810</b>	331,556	(38.8%)
(Loss) profit for the period/year from continuing operations	<b>(2,732)</b>	36,961	78,767	N/A	N/A	<b>166,407</b>	281,840	(41.0%)
Basic (loss) earnings per share from continuing operations (RMB cents)	<b>(0.95)</b>	7.27	15.67	N/A	N/A	<b>32.48</b>	55.50	(41.5%)
Diluted (loss) earnings per share from continuing operations (RMB cents)	<b>(0.95)</b>	7.22	15.57	N/A	N/A	<b>31.75</b>	54.74	(42.0%)

## Metrics

### Online Games

	4Q 2013	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012
PCU	<b>477,000</b>	510,000	468,000	445,000	521,000	525,000	582,000
ACU	<b>266,000</b>	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 payments 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 of convertible redeemable preferred shares and other financial liability, finance costs and profit on disposal of subsidiaries (net of related income tax).

## Management Conference Call

NetDragon will host a management conference call and webcast to review its fourth quarter and fiscal year 2013 financial results ended December 31, 2013 on Thursday, March 27, 2014, at 8pm Hong Kong time.

Details of the live conference call are as follows:

**Time: 8:00 PM Beijing / Hong Kong Time / 8:00 AM Eastern Standard Time, March 27, 2014**

International Toll	<b>61-283-733-610</b>
US Toll Free	<b>1-800-742-9301</b>
Hong Kong Toll Free	<b>800-906-648</b>
China Toll Free (for fixed line users)	<b>800-870-0210</b>
China Toll Free (for mobile users)	<b>400-120-3170</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 "4Q and Fiscal Year 2013 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 MMORPGs and a cutting-edge R&D powerhouse. We launched our first self-made online game "Monster & Me" in 2002, followed by multiple titles including "Eudemons Online", "Conquer Online" and "Zero Online". Meanwhile, leveraging our years of experience in R&D and operation of games, we have successively launched a variety of mobile games, including "Warring States", "War of Gods" and "Crazy Horde". 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 the China's biggest and most influential smartphone service platform - 91 Wireless.

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 2013)**

	4Q 2013	3Q 2013	2013	2012
	(Unaudited)	(Unaudited)	(Audited)	(Audited and restated)
	RMB '000	RMB '000	RMB '000	RMB '000
<b>Continuing operations</b>				
<b>Revenue</b>	<b>229,001</b>	219,364	<b>884,518</b>	825,744
Cost of revenue	<b>(23,070)</b>	(19,837)	<b>(81,426)</b>	(54,404)
<b>Gross profit</b>	<b>205,931</b>	199,527	<b>803,092</b>	771,340
Other income and gains	<b>14,687</b>	12,476	<b>44,980</b>	48,909
Selling and marketing expenses	<b>(31,692)</b>	(27,935)	<b>(106,200)</b>	(113,555)
Administrative expenses	<b>(140,882)</b>	(87,611)	<b>(366,143)</b>	(206,137)
Development costs	<b>(44,469)</b>	(45,349)	<b>(162,857)</b>	(146,208)
Other expenses	<b>(5,290)</b>	(1,259)	<b>(10,046)</b>	(22,249)
Share of profit (losses) of associates	<b>8</b>	(41)	<b>(16)</b>	(544)
<b>Operating (loss)profit</b>	<b>(1,707)</b>	49,808	<b>202,810</b>	331,556
Interest income on pledged bank deposit	<b>840</b>	222	<b>4,883</b>	4,849
Exchange gain (loss) on pledged bank deposit and secured bank borrowing	<b>4,465</b>	(1,769)	<b>4,593</b>	10,807
Net loss on other financial liability	<b>(3,122)</b>	-	<b>(5,481)</b>	(10,679)
Gain on disposal of available-for-sale investment	<b>5,761</b>	-	<b>5,761</b>	-
Net gain (loss) on held for trading investments	<b>8,756</b>	-	<b>8,756</b>	(61)
Finance costs	<b>(968)</b>	(326)	<b>(4,651)</b>	(4,276)
<b>Profit before taxation</b>	<b>14,025</b>	47,935	<b>216,671</b>	332,196
Taxation	<b>(16,757)</b>	(10,974)	<b>(50,264)</b>	(50,356)
(Loss)profit for the period/year from continuing operations	<b>(2,732)</b>	36,961	<b>166,407</b>	281,840
<b>Discontinued operations</b>				
Profit (loss) for the period/year from discontinued operations	<b>5,811,963</b>	105,586	<b>6,056,041</b>	(242,879)
<b>Profit for the period/year</b>	<b>5,809,231</b>	142,547	<b>6,222,448</b>	38,961
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	<b>(338)</b>	(167)	<b>(1,130)</b>	(64)
<b>Total comprehensive income for the period/year</b>	<b>5,808,893</b>	142,380	<b>6,221,318</b>	38,897



## Profit (loss) for the period/year attributable to:

-Owners of the Company	<b>5,807,145</b>	97,230	<b>6,140,776</b>	39,176
-Non-controlling interests	<b>2,086</b>	45,317	<b>81,672</b>	(215)
	<b>5,809,231</b>	142,547	<b>6,222,448</b>	38,961

## Profit (loss) for the period/year attributable to owner of the Company:

-from continuing operations	<b>(4,818)</b>	36,926	<b>164,352</b>	282,029
-from discontinued operations	<b>5,811,963</b>	60,304	<b>5,976,424</b>	(242,853)

## Profit for the period/year attributable to owner of the Company

<b>5,807,145</b>	97,230	<b>6,140,776</b>	39,176
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## Profit (loss) for the period/year attributable to non-controlling interests:

-from continuing operations	<b>2,086</b>	35	<b>2,055</b>	(189)
-from discontinued operations	-	45,282	<b>79,617</b>	(26)

## Profit (loss) for the period/year attributable to non-controlling interests

<b>2,086</b>	45,317	<b>81,672</b>	(215)
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## Total comprehensive income (expense) attributable to:

-Owners of the Company	<b>5,806,807</b>	97,063	<b>6,139,646</b>	39,112
-Non-controlling interests	<b>2,086</b>	45,317	<b>81,672</b>	(215)
	<b>5,808,893</b>	142,380	<b>6,221,318</b>	38,897

**RMB cents**

RMB cents

**RMB cents**

RMB cents

**Earnings per share**

## From continuing and discontinued operations

- Basic	<b>1,145.41</b>	19.14	<b>1,213.44</b>	7.71
- Diluted	<b>1,138.30</b>	19.02	<b>1,181.10</b>	7.60

## From continuing operations

- Basic	<b>(0.95)</b>	7.27	<b>32.48</b>	55.50
- Diluted	<b>(0.95)</b>	7.22	<b>31.75</b>	54.74

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (AS AT 31 DECEMBER 2013)**

	2013 (Audited) RMB'000	2012 (Audited) RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	532,684	345,415
Prepaid lease payments	185,819	139,678
Investment property	15,725	16,217
Intangible assets	-	2,626
Interests in associates	1,299	11,793
Interest in a joint venture	-	18,015
Available-for-sale investments	5,000	5,000
Loan receivables	16,041	9,969
Deposits made for acquisition of property, plant and equipment	16,769	-
Other receivable	60,969	-
Goodwill	12,534	12,534
Deferred tax assets	54	1,586
	<b>846,894</b>	<b>562,833</b>
<b>Current assets</b>		
Prepaid lease payments	2,583	2,902
Loan receivables	713	3,143
Trade receivables	41,718	61,427
Other receivables, prepayments and deposits	69,770	72,101
Held for trading investments	20,735	4,939
Amounts due from related companies	4,564	3,637
Amount due from a joint venture	-	3,060
Pledged bank deposit	107,368	194,405
Bank deposits	3,051,289	394,081
Bank balances and cash	1,304,355	1,142,825
	<b>4,603,095</b>	<b>1,882,520</b>
<b>Current liabilities</b>		
Trade and other payables	152,837	222,137
Deferred income	26,553	24,778
Amount due to a related company	-	121
Amount due to an associate	-	5,600
Secured bank borrowing	104,672	183,595
Other financial liability	3,122	10,679
Income tax payable	539,927	66,355
	<b>827,111</b>	<b>513,265</b>
<b>Net current assets</b>	<b>3,775,984</b>	<b>1,369,255</b>
<b>Total assets less current liabilities</b>	<b>4,622,878</b>	<b>1,932,088</b>

**Non-current liabilities**

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

<b>Net assets</b>	<b>4,622,878</b>	<b>1,416,003</b>
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**Capital and reserves**

Share capital	37,664	37,532
Share premium and reserves	4,577,478	1,356,317
Equity attributable to owners of the Company	4,615,142	1,393,849
Non-controlling interests	7,736	22,154
	4,622,878	1,416,003