NetDragon Websoft Inc.
網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2010

The board (the "Board") of directors (the "Director(s)") of NetDragon Websoft Inc. (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2010. The first quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and reviewed by the audit committee (the "Audit Committee") of the Company, comprising of three independent non-executive Directors.

RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2010 together with the comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2010

	NOTES	**Three months ended 31 March** **2010** **(Unaudited)** ***RMB'000***	2009 *(Unaudited)* *RMB'000*
Revenue	4	**139,476**	173,898
Cost of revenue		**(18,717)**	(18,882)
Gross profit		**120,759**	155,016
Other income and gains	4	**5,660**	5,750
Selling and marketing expenses		**(22,197)**	(27,716)
Administrative expenses		**(42,176)**	(35,563)
Development costs		**(39,739)**	(42,574)
Other expenses		**(928)**	(243)
Net gain on derivative financial instruments		**—**	184
Net loss on financial assets designated as fair value through profit or loss		**—**	(1,138)
Share of loss of a jointly controlled entity		**—**	(214)
Profit before taxation		**21,379**	53,502
Taxation	6	**(210)**	(4,703)
Profit for the period	7	**21,169**	48,799
Other comprehensive income (loss):			
Exchange differences arising on translation of foreign operations		**20**	(1,041)
Total comprehensive income for the period		**21,189**	47,758

	NOTE	Three months ended 31 March	
		2010	2009
		(Unaudited)	*(Unaudited)*
		RMB'000	*RMB'000*
Profit for the period attributable to:			
- Owners of the Company		**21,215**	48,943
- Non-controlling interests		**(46)**	(144)
		21,169	48,799
Total comprehensive income attributable to:			
- Owners of the Company		**21,235**	47,902
- Non-controlling interests		**(46)**	(144)
		21,189	47,758
		RMB cents	*RMB cents*
Earnings per share	9		
- Basic		**4.03**	9.31
- Diluted		**4.03**	9.31

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	NOTES	**31 March 2010** ***(Unaudited)*** ***RMB'000***	31 December 2009 *(Audited)* *RMB'000*
Non-current assets			
Property, plant and equipment		**106,825**	109,226
Prepaid lease payments		**41,072**	41,075
Deposit paid for acquisition of property, plant and equipment		**8,895**	8,895
Intangible assets		**13,715**	12,980
Interests in jointly controlled entities		**—**	—
Available-for-sale investments		**4,000**	4,000
Loan receivables		**6,712**	7,313
Deferred tax assets		**54**	54
		181,273	183,543
Current assets			
Prepaid lease payments		**626**	855
Loan receivables		**674**	893
Trade receivables	10	**22,696**	14,128
Other receivables, prepayments and deposits		**58,500**	66,272
Held for trading investments		**256**	377
Amount due from a related company		**241**	—
Advances to a jointly controlled entity	11	**33,000**	29,000
Tax recoverable		**—**	20
Bank deposits		**448,470**	551,970
Bank balances and cash		**805,114**	705,053
		1,369,577	1,368,568
Current liabilities			
Trade payables	12	**332**	285
Other payables and accruals		**44,658**	67,881
Deferred income		**17,367**	18,189
Income tax payable		**9,916**	9,935
		72,273	96,290
Net current assets		**1,297,304**	1,272,278
		1,478,577	1,455,821
Capital and reserves			
Share capital		**39,264**	39,264
Share premium and reserves		**1,439,843**	1,417,041
Equity attributable to owners of the Company		**1,479,107**	1,456,305
Non-controlling interests		**(530)**	(484)
		1,478,577	1,455,821

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2010

	Equity attributable to owners of the Company												
	Share capital	**Share premium**	**Capital redemption reserve**	**Capital reserve**	**Statutory reserves**	**Dividend reserve**	**Treasury share reserve**	**Employee share-based compensation reserve**	**Translation reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009 (audited)	39,264	1,157,364	1,963	9,946	97,692	51,275	(12,432)	—	(55,707)	164,446	1,453,811	—	1,453,811
Exchange difference on translation of foreign operations	—	—	—	—	—	—	—	—	(1,041)	—	(1,041)	—	(1,041)
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	48,943	48,943	(144)	48,799
Total comprehensive income for the period	—	—	—	—	—	—	—	—	(1,041)	48,943	47,902	(144)	47,758
At 31 March 2009 (unaudited)	39,264	1,157,364	1,963	9,946	97,692	51,275	(12,432)	—	(56,748)	213,389	1,501,713	(144)	1,501,569
At 1 January 2010 (audited)	39,264	1,157,364	1,963	9,946	114,642	23,270	(10,757)	4,641	(56,491)	172,463	1,456,305	(484)	1,455,821
Exchange difference on translation of foreign operations	—	—	—	—	—	—	—	—	20	—	20	—	20
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	21,215	21,215	(46)	21,169
Total comprehensive income for the period	—	—	—	—	—	—	—	—	20	21,215	21,235	(46)	21,189
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	1,567	—	—	1,567	—	1,567
Transfer	—	—	—	—	17	—	—	—	—	(17)	—	—	—
At 31 March 2010 (unaudited)	39,264	1,157,364	1,963	9,946	114,659	23,270	(10,757)	6,208	(56,471)	193,661	1,479,107	(530)	1,478,577

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2010

	Three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
NET CASH FROM OPERATING ACTIVITIES	**8,123**	44,164
NET CASH FROM INVESTING ACTIVITIES	**91,899**	121,831
NET INCREASE IN CASH AND CASH EQUIVALENTS	**100,022**	165,995
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**705,053**	332,009
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**39**	(1,040)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**805,114**	496,964

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2010

1. GENERAL

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the main board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 June 2008. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 2209, 22nd Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are online game development, including game design, programming and graphics, and online game operation.

2. BASIS OF PREPARATION

The amounts included in the condensed consolidated financial statements have been computed in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA applicable to interim periods. However, it does not contain sufficient information to constitute an interim financial report defined in HKFRSs.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2010. The adoption of the new and revised HKFRSs had no material effect on the results and financial position of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[3]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for the First-time Adopters[2]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) - INT 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1 February 2010

[2] Effective for annual periods beginning on or after 1 July 2010

[3] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

[4] Effective for annual periods beginning on or after 1 January 2011

[5] Effective for annual periods beginning on or after 1 January 2013

* IFRIC represents the International Financial Reporting Interpretations Committee

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the condensed consolidated financial statements of the Group.

4. REVENUE, OTHER INCOME AND GAINS

	Three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Online game revenue	**139,476**	173,898
Other income and gains		
Advertising income	**153**	29
Government grants *(Note)*	**1,104**	—
Interest income	**2,504**	5,550
Net gain on fair value change of held for trading investments	**602**	—
Technical services income	**1,134**	—
Others	**163**	171
	5,660	5,750

Note:

Government grants were received from the government of the People's Republic of China (the "PRC") for subsidising the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to software or technology development. There are no unfulfilled conditions or contingencies relating to the grants.

5. SEGMENT INFORMATION

Reported segment information is based on internal management reporting information that is regularly reviewed by the executive directors, being the chief operating decision maker (the "CODM") of the Group for the purpose of allocating resources to segments and assessing their performance.

There is only one business component in the internal reporting to the CODM.

The following is an analysis of the Group's revenue and results by reportable segment:

	Three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segment revenue	**139,476**	173,898
Segment profit	**29,824**	59,705
Unallocated income	**4,556**	5,750
Net gain on derivative financial instruments	**—**	184
Net loss on financial assets designated as fair value through profit or loss	**—**	(1,138)
Unallocated expenses	**(13,001)**	(10,785)
Share of loss of a jointly controlled entity	**—**	(214)
Profit before taxation	**21,379**	53,502

The executive directors assess segment profit or loss using a measure of operating profit whereby certain items are not included in arriving at the segment result of the reportable segment (including share-based payments expense, share of loss of a jointly controlled entity, net gain on derivative financial instruments, net loss on financial assets designated as fair value through profit or loss, income tax expenses, unallocated income and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

All of the segment revenue reported above is from external customers.

The following is an analysis of the Group's assets by reportable segment:

	31 March	31 December
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Reportable segment assets	**1,115,902**	1,093,510
Unallocated	**434,948**	458,601
	1,550,850	1,552,111

6. TAXATION

	Three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
The charge comprises:		
The PRC Enterprise Income Tax ("EIT")	**160**	4,641
Taxation in other jurisdictions	**50**	62
	210	4,703

The PRC EIT is calculated at the applicable prevailing tax rates in the PRC.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

7. PROFIT FOR THE PERIOD

	Three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging:		
Auditor's remuneration	**172**	114
Amortisation of intangible assets (included in cost of revenue)	**1,093**	876
Amortisation of intangible assets (included in other expenses)	**435**	—
Release of prepaid lease payments	**191**	34
Depreciation of property, plant and equipment	**10,793**	9,062
Operating lease rentals in respect of:		
- rented premises	**3,485**	1,975
- computer equipment	**10,565**	11,363
Staff costs:		
Directors' emoluments	**504**	494
Other staff costs		
Salaries and other benefits	**56,212**	56,719
Contributions to retirement benefits schemes	**4,188**	3,047
Share-based payments expense	**1,567**	—
	62,471	60,260
Net foreign exchange loss	**1,605**	782
Loss on disposal of property, plant and equipment	**290**	—

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2010 (three months ended 31 March 2009: Nil).

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Three months ended 31 March	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share — profit for the period attributable to the owners of the Company	**21,215**	48,943

	Three months ended 31 March Number of shares	
	2010	2009
	(Unaudited)	(Unaudited)
	'000	*'000*
Weighted average number of shares for the purpose of basic earnings per share	**526,151**	525,774
Effect of dilutive potential shares from the Company's share option scheme	**24**	—
Weighted average number of shares for the purpose of calculating diluted earnings per share	**526,175**	525,774

The presentation of diluted earnings per share for the three months ended 31 March 2010 and 2009 have not taken into account the effect of potential shares under share award scheme because the exercise price of the Company's shares under the share award scheme was higher than the average market price of the shares for both periods.

10. TRADE RECEIVABLES

The Group allows a credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period.

	31 March 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
0 - 30 days	**17,808**	11,513
31 - 60 days	**2,556**	1,949
61 - 90 days	**1,806**	101
Over 90 days	**526**	565
	22,696	14,128

11. ADVANCES TO A JOINTLY CONTROLLED ENTITY

	31 March 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Interest bearing portion *(Note a)*	**26,000**	—
Non-interest bearing portion *(Note b)*	**7,000**	29,000
	33,000	29,000

Notes:

a. The amount is unsecured, bears interest at 5.31% per annum and is repayable on 31 January 2011.

b. The amount is unsecured and non-interest bearing. The amounts of RMB5,000,000 and RMB2,000,000 are repayable on 31 May 2010 and 30 June 2010, respectively.

In May 2010, the Group has entered into two agreements with the same independent third party for the disposal of interests in jointly controlled entities with an aggregate consideration of RMB4 million. According to one of the agreements, the advances to a jointly controlled entity set out above will be settled by the purchaser once the conditions of this agreement are completed.

12. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	31 March 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
0 - 90 days	**299**	268
91 - 180 days	**22**	6
181 - 365 days	**—**	—
Over 365 days	**11**	11
	332	285

13. EVENT AFTER THE REPORTING PERIOD

As announced by the Company on 6 May 2010, an indirectly wholly owned subsidiary of the Company has entered into a shares transfer agreement with DJM Holding Ltd. ("DJM"), a substantial shareholder of the Company, whose total issued share capital is held by Mr. Liu Dejian and Mr. Zheng Hui, both being Directors of the Company, to acquire the entire equity interests in Fujian TianDi Animation Technologies Co. Ltd. (福建天棣動漫科技有限公司) ("Fujian TianDi"), a wholly owned subsidiary of DJM, for a consideration of approximately RMB67,801,000 (equivalent to approximately USD9,932,000). The transaction was completed on 7 June 2010.

Details of the shares transfer agreement are set out in the circular dated 19 May 2010 issued by the Company.

OPERATION INFORMATION

The following table sets out the breakdown of peak concurrent users (the "PCU") and average concurrent users (the "ACU") for our online games for periods indicated below *(Note)*:

	For the three months ended				
	31 March 2010	31 December 2009	30 September 2009	30 June 2009	31 March 2009
PCU	**451,000**	492,000	519,000	632,000	695,000
ACU	**230,000**	253,000	273,000	310,000	333,000

Note: As at 31 March 2010, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online and other games.

The PCU for online games was approximately 451,000 for the three months ended 31 March 2010, representing a decrease of approximately 8.3% from the three months ended 31 December 2009 and representing a decrease of approximately 35.1% from the three months ended 31 March 2009.

We also recorded the ACU for online games of approximately 230,000 for the three months ended 31 March 2010, which represented a decrease of approximately 9.1% from the three months ended 31 December 2009 and represented a decrease of approximately 30.9% from the three months ended 31 March 2009.

FINANCIAL PERFORMANCE HIGHLIGHTS

Three months ended 31 March 2010

The following table sets forth the comparative figures for the three months ended 31 March 2010 and 2009:

	Three months ended 31 March	
	2010	2009
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**139,476**	173,898
Cost of revenue	**(18,717)**	(18,882)
Gross profit	**120,759**	155,016
Other income and gains	**5,660**	5,750
Selling and marketing expenses	**(22,197)**	(27,716)
Administrative expenses	**(42,176)**	(35,563)
Development costs	**(39,739)**	(42,574)
Other expenses	**(928)**	(243)
Net gain on derivative financial instruments	**—**	184
Net loss on financial assets designated as fair value through profit or loss	**—**	(1,138)
Share of loss of a jointly controlled entity	**—**	(214)
Profit before taxation	**21,379**	53,502
Taxation	**(210)**	(4,703)
Profit for the period	**21,169**	48,799
Profit for the period attributable to:		
- Owners of the Company	**21,215**	48,943
- Non-controlling interests	**(46)**	(144)
	21,169	48,799

First Quarter of 2010

Revenue

Revenue for the first quarter of 2010 was approximately RMB139.5 million, representing a decrease of approximately 19.8% over the same period in 2009 and an increase of approximately 3.9% from the fourth quarter of 2009.

Cost of revenue

Cost of revenue for the first quarter of 2010 was approximately RMB18.7 million, representing a decrease of approximately 0.9% over the same period in 2009 and maintained at a steady level as compared with the fourth quarter of 2009.

Other income and gains

Other income and gains of approximately RMB5.7 million were recorded for the first quarter of 2010, compared to other income and gains that of approximately RMB5.8 million and RMB17.9 million for the same period in 2009 and the fourth quarter of 2009, respectively.

Selling and marketing expenses

Selling and marketing expenses for the first quarter of 2010 were approximately RMB22.2 million, representing a decrease of approximately 19.9% over the same period in 2009 and a decrease of approximately 36.1% from the fourth quarter of 2009.

Administrative expenses

Administrative expenses for the first quarter of 2010 were approximately RMB42.2 million, representing an increase of approximately 18.6% over the same period in 2009 and an increase of approximately 12.6% from the fourth quarter of 2009.

Development costs

Development costs for the first quarter of 2010 were approximately RMB39.7 million, representing a decrease of approximately 6.7% over the same period in 2009 and a decrease of approximately 31.7% from the fourth quarter of 2009.

Other expenses

Other expenses for the first quarter of 2010 were approximately RMB0.9 million, representing an increase of approximately 281.9% over the same period in 2009 but a decrease of approximately 32.2% from the fourth quarter of 2009.

Profit for the period

Profit for the period for the first quarter of 2010 was approximately RMB21.2 million, representing a decrease of approximately 56.6% over the same period in 2009 and an increase of approximately 1,599.0% from the fourth quarter of 2009. As a percentage of revenue, profit for the period accounted for approximately 15.2% for the first quarter of 2010, compared to approximately 28.1% for the same period of 2009 and approximately 0.9% for the fourth quarter of 2009.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the first quarter of 2010 was approximately RMB21.2 million, representing a decrease of approximately 56.7% over the same period in 2009 and an increase of approximately 1,387.7% from the fourth quarter of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2010 Compared to First Quarter of 2009

The following table sets forth the comparative figures for the first quarter of 2010 and the first quarter of 2009:

	Three months ended 31 March	
	2010	2009
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**139,476**	173,898
Cost of revenue	**(18,717)**	(18,882)
Gross profit	**120,759**	155,016
Other income and gains	**5,660**	5,750
Selling and marketing expenses	**(22,197)**	(27,716)
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Profit for the period attributable to:		
- Owners of the Company	**21,215**	48,943
- Non-controlling interests	**(46)**	(144)
	21,169	48,799

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 31 March 2010 was approximately RMB139.5 million, representing a decrease of approximately 19.8% as compared to approximately RMB173.9 million for the same period of 2009. The reason for drop was mainly due to (i) no new games launched during the period under review; and (ii) the increase in competition in overall market.

The following table sets out the breakdown of geographical revenue of the Group for periods indicated below:

	For the period from 1 January 2010 to 31 March 2010		For the period from 1 January 2009 to 31 March 2009	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
PRC	**104,466**	**74.9**	134,574	77.4
Overseas	**35,010**	**25.1**	39,324	22.6
	139,476	**100.0**	173,898	100.0

The revenue derived from the PRC for the three months ended 31 March 2010 was approximately RMB104.5 million, representing a decrease of approximately 22.4% as compared to approximately RMB134.6 million for the same period of 2009.

The revenue derived from overseas markets for the three months ended 31 March 2010 was approximately RMB35.0 million, representing a decrease of approximately 11.0% as compared to approximately RMB39.3 million for the same period of 2009.

Cost of revenue

Cost of revenue for the three months ended 31 March 2010 was approximately RMB18.7 million, which represented a relatively steady level as compared to approximately RMB18.9 million for the same period of 2009, which was mainly due to the positive result from the actions taken on cost control starting from the fourth quarter of 2009.

Gross profit

Our gross profit for the three months ended 31 March 2010 was approximately RMB120.8 million, representing a decrease of approximately 22.1% as compared to approximately RMB155.0 million for the same period of 2009.

The gross profit margin for the three months ended 31 March 2010 was approximately 86.6%, representing a decrease of approximately 2.5% as compared to approximately 89.1% for the same period of 2009.

Other income and gains

Other income and gains for the three months ended 31 March 2010 were approximately RMB5.7 million, representing a decrease of approximately 1.6% as compared with the same period of 2009. The decrease in other income and gains was attributable to the decrease in interest income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2010 were approximately RMB22.2 million, representing a decrease of approximately 19.9% as compared with the same period of 2009. The decrease in the amount of selling and marketing expenses was mainly due to (i) the decrease in promotion activities for the delay in launching of new games; and (ii) the decline in headcount as a result of implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review.

Administrative expenses

Administrative expenses increased by approximately 18.6% to approximately RMB42.2 million for the three months ended 31 March 2010 as compared with the same period of 2009. The increase in the amount of administrative expenses was mainly due to (i) the increase in cost incurred during the process of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report; and (ii) the increase in the exchange loss of the conversion between Hong Kong dollars ("HKD") and Renminbi ("RMB").

Development costs

Development costs decreased by approximately 6.7% to approximately RMB39.7 million for the three months ended 31 March 2010 as compared with the same period of 2009. The decrease in the amount of development costs was caused by (i) the decline in headcount as a result of implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review; (ii) the decrease in co-operation with outside service companies for design and development; and (iii) the positive result from the actions taken on cost control during the first quarter of 2010.

Other expenses, net gain on derivative financial instruments and net loss on financial assets designated as fair value through profit or loss

The net amount of other expenses, net gain on derivative financial instruments and net loss on financial assets designated as fair value through profit or loss for the three months ended 31 March 2010 was approximately RMB0.9 million, which have a slightly decrease as compared with the same period of 2009.

Taxation

Taxation for the three months ended 31 March 2010 was approximately RMB0.2 million, which dropped by approximately 95.5% as compared with the same period of 2009.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 March 2010 was approximately RMB21.2 million, representing a decrease of approximately RMB27.7 million as compared with approximately RMB48.9 million for the same period of 2009.

First Quarter of 2010 Compared to Fourth Quarter of 2009

The following table sets forth the comparative figures for the first quarter of 2010 and the fourth quarter of 2009:

	Three months ended	
	31 March	31 December
	2010	2009
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**139,476**	134,190
Cost of revenue	**(18,717)**	(18,731)
Gross profit	**120,759**	115,459
Other income and gains	**5,660**	17,881
Selling and marketing expenses	**(22,197)**	(34,714)
Administrative expenses	**(42,176)**	(37,466)
Development costs	**(39,739)**	(58,208)
Other expenses	**(928)**	(1,368)
Profit before taxation	**21,379**	1,584
Taxation	**(210)**	(338)
Profit for the period	**21,169**	1,246
Profit for the period attributable to:		
- Owners of the Company	**21,215**	1,426
- Non-controlling interests	**(46)**	(180)
	21,169	1,246

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 31 March 2010 was approximately RMB139.5 million, representing an increase of approximately 3.9% as compared to approximately RMB134.2 million for the three months ended 31 December 2009.

Despite the revenue rose by approximately 3.9% when compared to the fourth quarter of 2009, our revenue has not been maintained at the similar level of the first quarter of 2009 due to the increasing competition on overall market.

The following table sets out the breakdown of geographical revenue of the Group for periods indicated below:

	For the period from 1 January 2010 to 31 March 2010		For the period from 1 October 2009 to 31 December 2009	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
PRC	**104,466**	**74.9**	98,045	73.1
Overseas	**35,010**	**25.1**	36,145	26.9
	139,476	**100.0**	134,190	100.0

The revenue derived from the PRC for the three months ended 31 March 2010 was approximately RMB104.5 million, representing an increase of approximately 6.5% as compared to approximately RMB98.0 million for the three months ended 31 December 2009.

The revenue derived from overseas markets for the three months ended 31 March 2010 amounted to approximately RMB35.0 million, representing a decrease of approximately 3.1% as compared with that of approximately RMB36.1 million for the three months ended 31 December 2009.

Cost of revenue

Cost of revenue for the three months ended 31 March 2010 decreased by approximately 0.1% to approximately RMB18.7 million, which represented a relatively steady level as compared with the three months ended 31 December 2009, which was caused by the positive result from the actions taken on cost control starting from the fourth quarter of 2009.

Gross profit

Our gross profit for the three months ended 31 March 2010 was approximately RMB120.8 million, representing an increase of approximately 4.6% as compared to approximately RMB115.5 million for the three months ended 31 December 2009.

However, the gross profit margin for the three months ended 31 March 2010 was approximately 86.6%, which represented a relatively steady level as compared with the three months ended 31 December 2009.

Other income and gains

Other income and gains for the three months ended 31 March 2010 decreased by approximately 68.3% to approximately RMB5.7 million as compared with the three months ended 31 December 2009. The decrease in other income and gains was mainly due to (i) the tax refund on business tax related to intercompany transactions due to the approved non-taxable co-operation revenue being paid by Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") to Fujian TQ Digital Inc. ("TQ Digital") during the year of 2008 was received in the fourth quarter of 2009; and (ii) there is no such income during the first quarter of 2010.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2010 decreased by approximately 36.1% to approximately RMB22.2 million as compared with the three months ended 31 December 2009. The decrease in selling and marketing expenses was mainly due to (i) the decrease in promotion activities for the delay in launching of new games; and (ii) the decline in headcount as a result of implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review.

Administrative expenses

Administrative expenses increased by approximately 12.6% to approximately RMB42.2 million for the three months ended 31 March 2010 as compared with the three months ended 31 December 2009. The increase in administrative expenses was attributable to (i) the increase in cost incurred during the process of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report; and (ii) the increase in the exchange loss of the conversion between HKD and RMB.

Development costs

Development costs decreased by approximately 31.7% to approximately RMB39.7 million for the three months ended 31 March 2010 as compared with the three months ended 31 December 2009. The number of staff in our development team decreased from 1,804 as at 31 December 2009 to 1,595 as at 31 March 2010. The decrease in the amount of development costs was caused by (i) the decline in headcount as a result of implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review; (ii) the decrease in co-operation with outside service companies for design and development; and (iii) the positive result from the actions taken on cost control during the first quarter of 2010.

Other expenses

Other expenses for the three months ended 31 March 2010 decreased from approximately RMB1.4 million to approximately RMB0.9 million as compared with the three months ended 31 December 2009. There is neither net gain nor loss on derivative financial instruments and financial assets designated as fair value through profit or loss for both three months ended 31 March 2010 and 31 December 2009, due to their maturity during the second quarter of 2009.

Taxation

Taxation for the three months ended 31 March 2010 dropped by approximately 37.9% as compared with the three months ended 31 December 2009.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 March 2010 was approximately RMB21.2 million, representing an increase of approximately RMB19.8 million as compared with approximately RMB1.4 million for the three months ended 31 December 2009.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2010, we had bank deposits, bank balances and cash of approximately RMB1,253.6 million as compared with approximately RMB1,257.0 million as at 31 December 2009.

As at 31 March 2010, the Group had net current assets of approximately RMB1,297.3 million as compared with approximately RMB1,272.3 million as at 31 December 2009.

STAFF INFORMATION

For the period under review, the breakdown of the number of employees of the Group is set out below:

	At 31 March 2010	At 31 December 2009	At 31 March 2009
Research and development	**1,595**	1,804	1,916
Operation and marketing	**565**	612	605
Accounting, finance and general administration	**423**	485	433
Total	**2,583**	2,901	2,954

As at 31 March 2010, we had a total of 2,583 employees (31 December 2009 and 31 March 2009: 2,901 and 2,954, respectively), 1,186 of which are game developers of the research and development department, representing approximately 45.9% of the total number of staff.

After three years' expansion of the Group, we have slowed down the recruitment by the implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report, which can be shown from the headcounts as of 31 December 2009 and 31 March 2010.

On the other hand, the Group still keeps a close watch on the level of employees' remunerations and benefits, and rewards staff according to the results of the Group's operating achievement.

BUSINESS REVIEW AND PROSPECTS

Business review

Over the past decade, the Group has witnessed the blossoming of China's online game industry after the 10th anniversary celebration since its birth and has positioned itself as a leader to be reckoned with.

As one of the leading innovators and creative forces in the rapidly evolving interactive media industry, the Group continues to execute a strategy of strengthening its core game development and operating capabilities in order to tap market opportunities that the online gaming industry has both in the PRC and abroad.

Development and licensing of existing games

During the period under review, the Group has continued to launch expansion packs in different languages that offer additional in-game items and premium features to bolster the popularity of its online games. We have launched a new Chinese expansion pack "Star Fleets" for Zero Online in February 2010.

Besides that, the Group continuously launched upgrades for its online games on a weekly basis which helped to sustain interest in the games among online players.

The Group operated its owned titled in overseas markets for years. With an aim to further expand its business into overseas markets, the Group has licensed its own in-house developed online games in various countries where market opportunities are emerging. The flagship online games in different languages were launched to attract a larger user base worldwide. We made further inroads into the Taiwan, Hong Kong and Macao after licensed Conquer Online, Eudemons Online and Zero Online. During the period under review, we commenced the open beta testing for the Traditional Chinese version of Way of the Five which was licensed to a Taiwan-based co-operation partner, Lager Network Technologies Inc., in January 2010.

Games in the pipeline

The Group always believes that strengthening its core competencies and creative design capability will facilitate the successful development of new online games. The Group also explored opportunities to develop online games based on popular third party intellectual property. In the past years, a member of the Group entered into co-operation with Disney Online to develop Disney Fantasy Online. The Group also entered into cooperative agreements with Electronic Arts Inc. for the developments of its first 3D MMORPG Dungeon Keeper Online and new version of MMORPG Ultima Online.

The partnership with these internationally renowned corporations is the proof of the Group's capabilities in game operations and development as well as a reflection of its market reputation.

Expanding of business lines

The Group continues to develop mobile software applications with which the Group is targeting China's emerging smart-phone users and it contributes an important part of our wireless business. As of 31 March 2010, the Group had 193 members being employed for the mobile software applications project. It demonstrated a strong development strength and operational capabilities in a variety of mobile phone platforms.

Enhancement of R&D capabilities

As of 31 March 2010, the Group's overall staff headcount was 2,583, of which 1,595 were members of the development team. The structure was designed to expand and diversify game offerings, while extending the market reach of its product portfolio and to further leverage the inherent advantages of vertical integration as a leading developer and operator of online games. The Group's game development team has gathered expertise in programming, design and graphics, which supports our frequent game upgrades and updates to accommodate the latest player preferences and satisfy emerging market trends.

Prospects and outlook

Looking into 2010, the Group plans to further enhance its core game development capabilities, streamline its integrated model of operation, strengthen marketing efforts and channel management, expand its product mix and extend the life span of its online games in order to enhance the Group's revenue base.

MMORPGs

The Group will continue to invest in the development of new and creative online games to attract and retain larger player bases. It also intends to develop new MMORPGs to expand its game portfolio. Currently, the Group has a number of online games in the pipeline, these include Dungeon Keeper Online, new version of Ultima Online, CJ7 Online, etc..

Other Online Games

In addition to the above-mentioned MMORPGs, the Group has also researched and developed different types of games, which include (i) action role playing games (“ARPG”); (ii) first-person shooting games (“FPS”); and (iii) action games (“ACT”). The Group is undergoing research and development for several games, which are Legend of the Dark* (“暗夜傳説”), Doomsday* (“末日危機”), Stock Tycoon* (“股市大亨”) and Cross Gate* (“時空之門”) and are expected to be launched to the market this year.

The Group believes that rapid and high-quality game development is critical to its success. It will continue to invest in, and significantly expand its game development capabilities through the recruitment of experienced, top quality game developers and designers. These updates will improve its games’ appeal and help maintain their marketability.

On the other hand, the Group started the talent optimization project from the end of 2009 and its objectives are to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff. We had successfully enhanced the mobility of staff and maintained the momentum of the Group. This project also lowered the labour cost as shown in the result of the first quarter of 2010 and further stimulated staff spirit and sense of responsibility.

To cope with the path of strengthening of the game development process, the Group continues to enhance its integrated operation model including business process management system, time management system, bug management system, production schedules system and version management system, which should help to improve the efficiency in the game operation, project management and office administrative processes. At of 31 March 2010, the Group had 207 members being employed for enhancing its integrated operation model.

We always recognise the valuable contribution brought by our human capital and has placed equal importance to its human resources development and customer service experience. We were named one of the PRC’s “List of Potential Enterprises in China” by Forbes China in 2009 and the “Excellent Employer — 2009 Excellent Chinese Company for Employee” by Fortune China.

* *For identification purpose only.*

As at the date of this announcement, the Group has successfully acquired the entire equity interests of Fujian TianDi, whose principal assets comprise the buildings, land and water coastal area located in Fujian Province, the PRC (the "Property"), which was initially DJM's investment project for its own investment in the comic and animation industry in the project of Haixi Animation Creativity City (海西動漫創意之都) (the "Project").

We are going to develop the Property and the parcel of land, acquired through a tender process from the State Land Resource Bureau of Changle City, Fujian Province (福建省長樂市國土資源局), adjoining each other, as (i) an education centre for online game design and animation experts; (ii) an interactive convention centre for online game and animation products; and (iii) the Group's new head office and staff quarters. We consider that the already built premises are suitable to serve the Group to participate in the Project as the representative company in online game industry in the Fujian Province. It can further strengthen the corporate image of the Group as well as to cope with the Group's future development and expansion plan.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities an Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Name of company**	**Capacity and nature of interests**	**Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
Liu Dejian *(Note 2)*	The Company	Beneficial owner and through controlled corporations	274,275,220 (L)	51.88%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian *(Note 3)*	Shanghai Tiankun Digital Technology Ltd. ("NetDragon (Shanghai)")	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and through controlled corporations	274,075,220 (L)	51.85%
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
Zheng Hui *(Note 2)*	The Company	Through controlled corporations	272,675,220 (L)	51.58%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and through a controlled corporation	14,500,000(L)	2.74%
Chao Guowei, Charles	The Company	Beneficial owner	98,510(L)	0.01%
Lee Kwan Hung	The Company	Beneficial owner	98,510(L)	0.01%
Liu Sai Keung, Thomas	The Company	Beneficial owner	98,510(L)	0.01%

Notes:

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.

2. Liu Dejian is interested in 95.40% of the issued share capital of DJM, which in turn is interested in 35.01% of the issued share capital of the Company.

   Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 4.98% of the issued share capital of the Company.

   Zheng Hui is interested in 4.60% and 100.00%, respectively, of the issued share capital of DJM and Fitter Property Inc., which in turn is interested in 35.01% and 5.35%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.23% of the issued share capital of the Company.

   Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.58% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM, Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company awarded 1,600,000 shares and 1,400,000 shares of the Company to Liu Dejian and Liu Luyuan, respectively.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.44% of the issued share capital of the Company. Chen Hongzhen had been awarded 1,600,000 shares of the Company on 7 December 2009, which represent 0.3% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.74% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited.

Save as disclosed above, to the best knowledge of the Directors, as at 31 March 2010, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as is known to the Directors, as at 31 March 2010, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	**Name of Group member**	**Capacity and nature of interests**	**Number of ordinary shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM	The Company	Beneficial owner	185,078,100(L)	35.01%
Fitter Property Inc.	The Company	Beneficial owner	28,299,400(L)	5.35%
Eagle World International Inc. *(Note 2)*	The Company	Beneficial owner	32,952,920(L)	6.23%
Flowson Company Limited *(Note 2)*	The Company	Through a controlled corporation	32,952,920(L)	6.23%
IDG Group *(Note 3)*	The Company	Beneficial owner	78,333,320(L)	14.83%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the British Virgin Islands with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.23% of the issued share capital of the Company through its shareholding in Eagle World International Inc..

3. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.06%, 9.84%, 2.01% and 0.92%, respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships are as follows:

   a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Patrick J. McGovern.

   b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Patrick J. McGovern.

   c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by James W. Breyer.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 March 2010.

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the "Main Board Share Option Scheme") to replace the then existing share option scheme. As at the date of this announcement, no option has been granted under the Main Board Share Option Scheme.

SHARE AWARD SCHEME

On 2 September 2008 (the "Adoption Date"), the Board approved and adopted the share award scheme (the "Share Award Scheme") in which selected employees of the Group are entitled to participate. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board under the Share Award Scheme (but not counting any which have lapsed or have been forfeited) representing in aggregate over 10% of the issued capital of the Company as at the date of such grant.

Pursuant to the rules of the Share Award Scheme, the Group has signed an agreement with Bank of Communications Trustee Limited (the "Trustee"), for the purpose of administering the Share Award Scheme and holding the awarded shares before they are vested.

As at 31 March 2010, total awarded amount (the "Awarded Amount") of HKD16,094,000 was awarded to a number of selected employees. The awarded shares, which purchased with the Awarded Amount and allocated by the Trustee from the total number of Shares purchased by the Trustee on the market out of cash paid by the Company, will be transferred to the selected employees at nil consideration upon vesting between 6 November 2008 and 6 November 2012, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

COMPETITION AND CONFLICT OF INTEREST

None of the Directors or any of their respective associates (as defined under the Listing Rules) has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this announcement.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the three months ended 31 March 2010.

AUDIT COMMITTEE

In compliance with Rules 3.21 and 3.22 of the Listing Rules, the Company established the Audit Committee with written terms of reference. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems of the Group. The Audit Committee comprises three members, Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas who are the independent non-executive Directors. Chao Guowei, Charles is the chairman of the Audit Committee.

The Group's unaudited condensed consolidated results for the three months ended 31 March 2010 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2010, neither the Company nor its subsidiaries purchased, sold or redeemed any of its listed securities.

By Order of the Board
NetDragon Websoft Inc.
Liu Dejian
Chairman

Hong Kong, 11 June 2010

As at the date of this announcement, the Board comprises four executive Directors, namely Liu Dejian, Liu Luyuan, Zheng Hui and Chen Hongzhan; one non-executive Director, namely Lin Dongliang and three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.