

\*[For Immediate Release]

## NetDragon Websoft Inc. Announces Third Quarter 2010 Financial Results

[23 November, 2010 Hong Kong] **NetDragon Websoft Inc.** ("NetDragon" or the "Company", Stock Code: 777), a leading online game developer and operator in China, today announced its third quarter unaudited financial results for the three months and nine months ended 30 September, 2010. The Company will host a management conference call and live webcast to review its results and recent developments at 8:00p.m. Hong Kong Time/7:00a.m. Eastern Standard Time, November 23rd, 2010.

### Third Quarter 2010 Financial & Operational Highlights

- Revenue was approximately RMB128.2 million, an increase of 6.7% over the second quarter in 2010("QoQ") or a decrease of 15.0% over the third quarter of 2009("YoY")
- Gross profit was approximately RMB111.9 million, an increase of 8.1% QoQ or a decrease of 12.6% YoY. Gross margin increased to 87.2% from 86.2% last quarter
- Profit for the period was approximately RMB2.8 million, an increase of 89.4% QoQ or a decrease of 85.0% YoY. Net margin increased to 2.2% from 1.3% last quarter
- Basic earnings per share for the quarter were RMB 0.55 cents, and diluted earnings per share were RMB 0.55 cents
- Average Concurrent Users ("ACU") for online games was 226,000, an increase of 4.1% QoQ and a decrease of 17.2% YoY
- Peak Concurrent Users ("PCU") for online games was 589,000, an increase of 31.2% QoQ and an increase of 13.5% YoY

### Chairman's Statement

Mr. Liu Dejian, Chairman and Executive Director of NetDragon, said, "We at NetDragon are pleased to witness a rebound in our third quarter revenue and profit. Third quarter PCU increased notably, largely a result of our opening of diversified versions targeting different users with different needs for our flagship 'Eudemons Online' franchise. Additionally, continuous updates are reinvigorating key titles such as 'Conquer Online', 'Disney Fantasy Online', and newer arrivals 'Tian Yuan' and 'CJ7 Online' picked up during the quarter."

"Additionally, we entered a license agreement with Hasbro Inc. to develop and publish an MMORPG, 'TRANSFORMERS Online', based on Hasbro's iconic TRANSFORMERS brand. Cooperation with internationally renowned partners presents a value-added proposition for NetDragon, and enhances our aim to introduce more diversified entertainment elements into the online gaming sector and enrich the industry."

"Our management is also pleased with the steady and rapid growth of our mobile internet business," continued Mr. Liu. "The rapidly increasing smartphone user base in China presents a wonderful business opportunity, and our three-year experience creating and operating our digital platform makes us confident that NetDragon will continue to assume an enviable position in China's mobile internet industry."

Mr. Liu concluded: "Based on the recent rebound of our core online gaming business, strong partnerships, leadership in China's mobile internet space, and overall strength of our R&D-oriented culture, I am positive about NetDragon's success over the decades to come."

### Third Quarter 2010 Business Highlights

- *Tian Yuan*  
As the Company's in-house developed large-scale fantasy MMORPG, "Tian Yuan" entered open beta testing in July 2010 after its first open beta testing on December 23rd, 2009. Its innovative gameplay such as aerial combat on mounts and reincarnation through challenging quests, together with the rich storyline built up by over 500 large-scale quests, liberated players from repetitious leveling up and allowed them to fully experience the game's appeal
- *Conquer Online*  
In the third quarter, "Conquer Online" released its English EP "Legends Return Season II", offering overseas gamers with more exciting content. In order to extend product lifecycle, the Company released the 7th Chinese EP "The Returning Light" for "Conquer Online" on November 12th, 2010. The new EP has a greatly improved "Steed System" and added a new class named "Monk", which will provide players with more class options and better user experiences. Currently, in overseas markets, there are English, French, Spanish, Arabic, Turkish, Traditional

Chinese and Japanese versions for this game. The Portuguese version is expected to enter open beta testing in Brazil at the end of November, 2010. Later, the English EP "Legends Return Season III: The Returning Light" is expected in December

- *Eudemons Online*  
 "Eudemons Online" is a medieval fantasy MMORPG launched in 2006, initially creating a mode that one character could raise several pets in real-time online games. In the third quarter, the Company released diversified versions for "Eudemons Online" targeting different users with different needs, which has attracted new users and recalled old users, and achieved the highest PCU during the past two years. In overseas markets, a Malaysian version of the EP "The Divine Path" was released, further consolidating its status in Malaysia. Looking ahead, the Traditional Chinese version of "Demon Rising" will be released in Hong Kong in November. Currently, "Eudemons Online" has English, Traditional Chinese, Portuguese, Indonesian and Vietnamese versions
- *Disney Fantasy Online*  
 As the world's first Disney-themed 2.5D turn-based MMORPG, the Company has released "Disney Fantasy Online's" first EP "The Awakening of Justice", in which two new classes "charmer" and "nobleman" were added, helping to better improve and balance the game's classes. Based on its rich gameplay, "Disney Fantasy Online" received "Top 10 Favorite Online Games" at the 2010 ChinaJoy Golden Plume Awards in November. The second EP is expected to release in December 2010
- *Heroes of Might and Magic Online*  
 As a large-scale turn-based strategic MMORPG developed by NetDragon, "Heroes of Might and Magic Online" has inherited the classic turn-based game mode of Heroes of Might and Magic series. The game's first Chinese EP "Phoenix Returns" was released on November 17, 2010, in order to update and enrich the game content
- *CJ7 Online*  
 CJ7 Online, a Q-style turn-based MMORPG adapting the storyline of Stephen Chow's movie, entered open beta testing in the third quarter. The game includes features like mini 3D battle effect, virtual item self-definition as well as pet body parts DIY etc. and embodies the "green online game" ideal promoted by the PRC Ministry of Culture
- *TRANSFORMERS Online*  
 Entered into an agreement with Hasbro Inc. to develop and publish an MMORPG based on Hasbro's iconic TRANSFORMERS brand in Asia, Russia/CIS and MENA. The action-oriented PC online game "TRANSFORMERS Online" is expected to officially roll-out in 2011 in China as well as other select markets in Asia, MENA and Russia/CIS

## Recent Developments

- "TQ Building", phase II project of "Haixi Animation Creativity City" which is the future R&D base of NetDragon formally broke ground for construction in October
- Honored with "Award for Original Online Game" at the 8th China International Digital Content Expo in October
- *Zero Online*  
 "Zero Online" was China's first 2.5D MMORPG under the theme of the universe and robots. The game's main features transfer from the traditional leveling-up and magic to weapon enhancement, organic evolution and battling for resources. For overseas expansion, its Vietnamese version of "Galactic Armada" was released in October and corresponding Traditional Chinese version is expected in 4Q 2010

## Business Outlook

- Version 3.0 of "91 PC Suite" -- our leading mobile internet applications and content portal -- is set to release shortly. Version 3.0 will accommodate various mobile OS, including iOS, Android, Windows Phone 7 and Symbian, better meeting our customer needs
- *Stock Tycoon*  
 "Stock Tycoon" is a game co-developed by NetDragon and a renowned financial channel. In the game, there is a brief introduction of various financial products and the data of the game is associated with the real stock market, allowing the players to have unprecedented realistic experience in the virtual world. The game is in the internal testing phase currently and is expected to enter open beta testing in 1Q 2011
- *Dungeon Keeper Online*  
 NetDragon's first 3D MMORPG "Dungeon Keeper Online", which is based on Electronic Arts' "Dungeon Keeper"™ line of games, is currently in the second round of internal testing and is expected to enter open beta testing in 2011
- A new EP for "Way of the Five" is expected shortly

- In addition to the above, the games under development include “Doomsday”, “Legend of the Dark”, “Cross Gate”, and a new version of “Ultima Online”, which covers various genres including ARPG, ACT and FPS etc.

### Management Conference Call

NetDragon will host a conference call and webcast to review its unaudited financial results for the 3 months and 9 months ended 30 September, 2010 on Tuesday, 23 November, 2010 Hong Kong time.

Details of the investor conference call are as follows:

**Time: 8:00PM Hong Kong Time / 7:00AM Eastern Standard Time, November 23rd, 2010**

Dial in numbers:

International Toll	<b>1-617-213-8860</b>
US Toll Free	<b>1-866-831-6291</b>
Hong Kong Toll Free	<b>1-800-96-3844</b>
South China Toll Free	<b>10-800-130-0399</b>
North China Toll Free	<b>10-800-152-1490</b>
Passcode	<b>80-656-309</b>

Replay service is available from 11:00PM November 23rd to 12:00PM, November 30th, 2010. Below are the replay numbers for different regions. International Toll: 1-617-801-6888; US Toll Free: 1-888-286-8010; Replay passcode: 65-396-643. 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 “3Q 2010 Results Conference Call” and follow the registration instructions.

### About NetDragon

NetDragon Websoft Inc. is a leading innovator and creative force in China's online gaming industry. Established in 1999, NetDragon has been operating and developing a broad range of MMORPGs since launching its first self-made title *Monster & Me* in 2002. In addition, NetDragon is China's pioneer in overseas expansion, having directly operated its titles in overseas markets since 2004 in English, French, Spanish and other foreign languages. NetDragon's game portfolio comprises a range of massively multiplayer online games that cater to various types of players and gaming preferences. Current offerings include the games *Eudemons Online*, *Conquer Online*, *Zero Online*, *Way of the Five*, *Heroes of Might & Magic Online*, *Disney Fantasy Online* and *Tian Yuan*. NetDragon also has multiple games currently in development, including *Dungeon Keeper Online*, *TRANSFORMERS Online*, *Doomsday*, *Cross Gate*, *Legend of the Dark* and a new version of *Ultima Online*.

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**Financial Highlights:**

RMB('000)	3Q 2010	2Q 2010	QoQ(%)	3Q 2010	3Q 2009	YoY(%)
Revenue	<b>128,219</b>	120,120	6.7%	<b>128,219</b>	150,877	(15.0%)
Gross Profit	<b>111,851</b>	103,490	8.1%	<b>111,851</b>	127,996	(12.6%)
GPM	<b>87.2%</b>	86.2%	1.0%	<b>87.2%</b>	84.8%	2.4%
Profit for the period	<b>2,847</b>	1,504	89.4%	<b>2,847</b>	18,986	(85.0%)
NPM	<b>2.2%</b>	1.3%	0.9%	<b>2.2%</b>	12.6%	(10.4%)
EPS-Basic (RMB cents)	<b>0.55</b>	0.29	89.7%	<b>0.55</b>	3.67	(85.0%)
EPS-Diluted (RMB cents)	<b>0.55</b>	0.29	89.7%	<b>0.55</b>	3.67	(85.0%)

**Metrics**

	3Q 2010	2Q 2010	1Q 2010	4Q 2009	3Q 2009
PCU	<b>589,000</b>	449,000	451,000	492,000	519,000
ACU	<b>226,000</b>	217,000	230,000	253,000	273,000

*Note: Online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Disney Fantasy Online, Tian Yuan, CJ7 Online and other games*

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2010**

	For the Three Months Ended		
	30/9/2010	30/6/2010	30/9/2009
	(Unaudited)	(Unaudited)	(Unaudited)
	RMB '000	RMB '000	RMB '000
<b>Revenue</b>	<b>128,219</b>	120,120	150,877
Cost of revenue	<b>(16,368)</b>	(16,630)	(22,881)
<b>Gross profit</b>	<b>111,851</b>	103,490	127,996
Other income and gains	<b>8,565</b>	9,286	28,539
Selling and marketing expenses	<b>(28,886)</b>	(26,630)	(31,551)
Administrative expenses	<b>(48,059)</b>	(42,004)	(47,085)
Development costs	<b>(36,966)</b>	(35,638)	(55,484)
Other expenses	<b>(1,380)</b>	(2,532)	(179)
<b>Profit before taxation</b>	<b>5,125</b>	5,972	22,236
Taxation	<b>(2,278)</b>	(4,468)	(3,250)
<b>Profit for the period</b>	<b>2,847</b>	1,504	18,986
Other comprehensive income (expenses):			
Exchange differences arising on translation of foreign operations	<b>(49)</b>	8	(522)
<b>Total comprehensive income for the period</b>	<b>2,798</b>	1,512	18,464
Profit for the period attributable to:			
- Owners of the company	<b>2,894</b>	1,548	19,290
- Non-controlling interests	<b>(47)</b>	(44)	(304)
	<b>2,847</b>	1,504	18,986
Total comprehensive income attributable to:			
Owners of the company	<b>2,845</b>	1,556	18,768
Non-controlling interests	<b>(47)</b>	(44)	(304)
	<b>2,798</b>	1,512	18,464
<b>Earnings per share</b>	<b>RMB cents</b>	RMB cents	RMB cents
-Basic	<b>0.55</b>	0.29	3.67
-Diluted	<b>0.55</b>	0.29	3.67

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 SEPTEMBER 2010**

	30 September 2010 (Unaudited) RMB '000	31 December 2009 (Audited)/(Restated) RMB '000
<b>Non-current assets</b>		
Property, plant and equipment	142,670	138,011
Prepaid lease payments	88,158	12,917
Deposit paid for acquisition of property, plant and equipment	-	8,895
Intangible assets	12,215	12,980
Interests in jointly controlled entities	-	-
Available-for-sale investments	4,000	4,000
Loan receivables	6,713	7,313
Deferred tax assets	54	54
	<u>253,810</u>	<u>184,170</u>
<b>Current assets</b>		
Prepaid lease payments	1,982	228
Loan receivables	227	893
Trade and other receivables, prepayments and deposits	70,544	80,400
Held for trading investments	802	377
Amount due from a related company	59	-
Advance to a jointly controlled entity	-	29,000
Tax recoverable	5,347	20
Bank deposits	439,643	551,970
Bank balances and cash	748,354	705,053
	<u>1,266,958</u>	<u>1,367,941</u>
<b>Current liabilities</b>		
Trade and other payables, accruals and deferred income	66,518	86,355
Income tax payable	14,555	9,935
	<u>81,073</u>	<u>96,290</u>
<b>Net current assets</b>	<u>1,185,885</u>	<u>1,271,651</u>
	<u>1,439,695</u>	<u>1,455,821</u>
<b>Capital and reserves</b>		
Share capital	39,264	39,264
Share premium and reserves	1,401,052	1,417,041
Equity attributable to owners of the Company	<u>1,440,316</u>	<u>1,456,305</u>
Non-controlling interests	(621)	(484)
	<u>1,439,695</u>	<u>1,455,821</u>