

NetDragon Websoft Inc.

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8288



First Quarterly Report 2008

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This report, for which the directors (the “Directors”) of NetDragon Websoft Inc. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

- The unaudited consolidated revenue of the Group for the three months ended 31 March 2008 amounted to RMB175.6 million (three months ended 31 March 2007: RMB107.3 million), representing an increase of approximately 63.7% as compared with the same period last year.
- Profit attributable to equity holders of the Company for the three months ended 31 March 2008 amounted to RMB70.0 million (three months ended 31 March 2007: RMB58.4 million), representing an increase of approximately 19.9% as compared with last corresponding period.
- For the three months ended 31 March 2008, the earnings per share amounted to RMB12.79 cents (three months ended 31 March 2007: RMB16.35 cents).
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

UNAUDITED RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the following unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2008 together with the comparative unaudited figures for the corresponding period in the last financial year.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Three months ended	
		31 March	
	<i>Notes</i>	2008	2007
		RMB'000	RMB'000
Revenue	4	175,556	107,274
Cost of revenue		(16,533)	(6,420)
Gross profit		159,023	100,854
Other revenue and gains	4	5,375	537
Selling and marketing expenses		(15,436)	(12,774)
Administrative expenses		(25,907)	(10,983)
Development costs		(17,679)	(6,970)
Other operating expenses		(7,908)	(5,488)
Profit before income tax		97,468	65,176
Income tax expense	5	(27,534)	(6,702)
Profit for the period		69,934	58,474
Attributable to			
- Equity holders of the Company		69,986	58,377
- Minority interests		(52)	97
		69,934	58,474
Dividends	6	—	44,839
		RMB cents	RMB cents
Earnings per share	7		
- attributable to the equity holders of the Company		12.79	16.35

NOTES:

1. **Company information**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 July 2004 and is an investment holding company.

The Company's registered office is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

The Group is principally engaged in online game development, including game design, programming and graphics, and online game operation.

2. **Basis of preparation**

The Group's unaudited consolidated quarterly results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

3. **Principal accounting policies**

The unaudited consolidated quarterly results for the three months ended 31 March 2008 are prepared under the historical cost convention and the accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2007. The condensed consolidated quarterly results have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The unaudited consolidated quarterly results are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

4. **Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised:

- (i) The Group sells pre-paid game cards to distributors and online game players. With the pre-paid game cards, online game players can credit their online game accounts with game points which can be used for the consumption of certain online games of the Group or for purchasing virtual products or premium features for the consumption of other online games of the Group which are free-to-play. The game players can also credit their online user accounts directly. Such income received is deferred and recorded as deferred income under current liabilities and would be recognised as revenue (i.e. online game revenue) upon the actual usage of the game points. Revenue recognised in respect of operating the online games is net of any discounts, business tax and other related taxes and charges.
- (ii) Game development fee which arises from developing online games for customers is recognised as revenue by reference to the stage of completion of developing the respective online game. As game development fee is non-recurring revenue and developing online games for outsider is not a principal activity of the Group, such fee income is recognised as other revenue.
- (iii) Bank interest income is recognised on a time-proportion basis using the effective interest method.

- (iv) Grants from government are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as other revenue and presented as such over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue and gains recognised are as follows:

	Three months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
Revenue		
Online game revenue	175,556	107,274
Other revenue and gains		
Grants from government	590	220
Bank interest income	4,785	183
Others	—	134
	<u>5,375</u>	<u>537</u>
	<u>180,931</u>	<u>107,811</u>

5. Income tax expense

- (i) The Group is not subject to any taxation under the jurisdictions of the Cayman Islands and the British Virgin Islands (“BVI”) for the periods ended 31 March 2007 and 2008. Provision for Hong Kong profits tax is not made as the Group does not derive any assessable profits in Hong Kong for the periods ended 31 March 2007 and 2008.
- (ii) PRC enterprise income tax (“EIT”) is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Fujian TQ Digital Inc. (“TQ Digital”), a subsidiary of the Company, is a foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 29 July 2005. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) issued by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) on 29 March 1994, TQ Digital is entitled to a preferential income tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years and TQ Digital continued to be recognised as a hi-tech enterprise on 16 August 2007. On 25 December 2003, TQ Digital was approved to be a software enterprise. Pursuant to the Circular on the Tax Policies for Encouraging the Development of Software and Integrated Circuit Industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知) issued by the Ministry of Finance (財政部), the State Administration of Taxation (國家稅務總局) and the General Administration of Customs (海關總署) on 22 September 2000, TQ Digital is entitled to tax benefits of tax exemption for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by 50% tax reduction for three years. 2003 was the first profitable year for TQ Digital. Accordingly, the EIT tax rate applicable to TQ Digital for the period ended 31 March 2007 was 7.5%.

Fujian NetDragon Websoft Co. Ltd. (“NetDragon (Fujian)”), another subsidiary of the Company, continued to be recognised as a hi-tech enterprise located in high technology industrial development zone on 9 November 2004. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) as mentioned in the previous paragraph, NetDragon (Fujian) was entitled to paying EIT at the reduced tax rate of 15% for 2005 and 2006. Pursuant to a notice issued by a government authority (福建省科學技術廳) on 16 August 2007, NetDragon (Fujian) continued to be recognised as a hi-tech enterprise and is thereby subject to EIT tax rate of 15% for the period ended 31 March 2007.

Shanghai Tiankun Digital Technology Ltd., one of the subsidiaries of the Company, is subject to EIT tax rate of 33%.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Tax Law”) by order No. 63 of the president of the PRC, which became effective on 1 January 2008. According to the New Tax Law, the income tax rate applicable to the Group’s PRC subsidiaries is unified at 25%. According to the circular of State Administration of Taxation Concerning Pre-Payment Issues Relevant to Enterprise Income Tax (國家稅務總局關於企業所得稅預繳問題的通知) issued by the State Administration of Taxation on 31 January 2008, TQ Digital and NetDragon (Fujian) which were recognised as hi-tech enterprises prior to 1 January 2008 shall provisionally subject to the EIT tax prepayment rate of 25%, pending further recognition in accordance with the New Tax Law.

As at the date of this report, TQ Digital and NetDragon (Fujian) are still not yet received any notifications relating to the recognition as hi-tech enterprises since 1 January 2008. Accordingly, the EIT tax rate applicable to TQ Digital and NetDragon (Fujian) for the period ended 31 March 2008 was 25%.

- (iii) The USA income tax rates applicable to the Group are 34% for federal tax and 8.84% for state income tax.

6. Dividends

On 3 February 2007, NetDragon Websoft Inc., one of the Company’s subsidiaries and incorporated in the BVI, declared a special dividend of RMB44,839,000 to its then equity holders.

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

7. Earnings per share

The earnings per share for the three months ended 31 March 2008 is calculated based on the unaudited consolidated profit attributable to equity holders of the Company for the period of RMB69,986,000 (three months ended 31 March 2007: RMB58,377,000) and the weighted average number of 547,369,602 (three months ended 31 March 2007: 357,076,618) ordinary shares in issue during the period.

Diluted earning per share has not been presented as there were no dilutive potential ordinary shares outstanding during the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

8. Reserves

For the three months ended 31 March 2007 and 2008, the movements of reserves are as follows:

	Capital								
	Share premium	Capital contribution	Capital redemption reserve	Capital reserve	Statutory reserves	Translation reserve	Dividend reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the three months ended									
31 March 2007 (unaudited)									
At 1 January 2007	16,267	21,755	–	11,596	6,768	(10)	–	46,749	103,125
Exchange difference arising on translation of overseas operations						431			431
Expense recognised directly in equity	–	–	–	–	–	431	–	–	431
Profit for the period	–	–	–	–	–	–	–	58,377	58,377
Total recognised income and expense for the period	–	–	–	–	–	431	–	58,377	58,808
Issue of shares by a subsidiary	69,984	(21,755)	–	170	–	–	–	–	48,399
Proposed dividend	–	–	–	–	–	–	–	(44,839)	(44,839)
At 31 March 2007	86,251	–	–	11,766	6,768	421	–	60,287	165,493
For the three months ended									
31 March 2008 (unaudited)									
At 1 January 2008	1,379,483	–	8	9,946	61,216	(10,680)	216,093	71,985	1,728,051
Exchange difference arising on translation of overseas operations						(42,871)			(42,871)
Expense recognised directly in equity	–	–	–	–	–	(42,871)	–	–	(42,871)
Profit for the period	–	–	–	–	–	–	–	69,986	69,986
Total recognised income and expense for the period	–	–	–	–	–	(42,871)	–	69,986	27,115
Repurchase and cancellation of shares	(176,587)	–	1,137	–	–	–	–	(1,137)	(176,587)
At 31 March 2008	1,202,896	–	1,145	9,946	61,216	(53,551)	216,093	140,834	1,578,579

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

For the three months ended 31 March 2008, the Group recorded an unaudited revenue of approximately RMB175.6 million representing an increase of about 63.7% from the unaudited revenue of approximately RMB107.3 million for the corresponding period in last year. The increase of total revenue was mainly due to the continuing popularity of Conquer Online, Eudemons Online, Zero Online and Tou Ming Zhuang Online.

The following table sets out the breakdown of our revenue by game for the three months ended 31 March 2007 and 2008:

	Three months ended 31 March			
	2008		2007	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Online games				
Conquer Online	39,437	22.4	29,883	27.8
Eudemons Online	105,395	60.0	76,684	71.5
Zero Online	19,271	11.0	—	—
Tou Ming Zhuang Online	11,173	6.4	—	—
Others	280	0.2	707	0.7
Total	175,556	100.0	107,274	100.0

The revenue derived from Conquer Online for the three months ended 31 March 2008 amounted to approximately RMB39.4 million, representing an increase of about 32.0% from approximately RMB29.9 million for the corresponding period in last year. Eudemons Online was launched in late March 2006. Revenue derived from Eudemons Online for the three months ended 31 March 2008 amounted to approximately RMB105.4 million, representing an increase of about 37.4% from approximately RMB76.7 million for the corresponding period in last year.

Both Zero Online and Tou Ming Zhuang Online were launched during the year ended 31 December 2007 and contributed a revenue of approximately RMB19.3 million and RMB11.2 million to the Company for the three months ended 31 March 2008, respectively.

The following table sets out the numbers of PCU and ACU of each game for the three months ended 31 March 2008:

	Three months ended			
	31 March 2008	31 December 2007	31 March 2007	31 December 2006
PCU				
Conquer Online	99,000	102,000	85,000	82,000
Eudemons Online	479,000	574,000	438,000	325,000
Zero Online	67,000	91,000	—	—
Tou Ming Zhuang Online	24,000	20,000	—	—
ACU				
Conquer Online	64,000	65,000	61,000	39,000
Eudemons Online	210,000	294,000	213,000	140,000
Zero Online	30,000	42,000	—	—
Tou Ming Zhuang Online	9,000	6,000	—	—

Conquer Online was launched in September 2003. The PCU and ACU for Conquer Online was approximately 99,000 and 64,000, respectively for the three months ended 31 March 2008 whereas it recorded a PCU and ACU of approximately 85,000 and 61,000, respectively for the three months ended 31 March 2007, representing an increase of approximately 16.5% and 4.9% on PCU and ACU, respectively.

Eudemons Online was launched in late March 2006 and achieved a PCU and ACU of approximately 479,000 and 210,000, respectively for the three months ended 31 March 2008 whereas it recorded a PCU and ACU of approximately 438,000 and 213,000, respectively for the three months ended 31 March 2007 representing an increase of approximately 9.4% and a decrease of approximately 1.4% respectively when compared to the corresponding period in last year.

Zero Online was launched in late April 2007 and achieved a PCU and ACU of approximately 67,000 and 30,000, respectively for the three months ended 31 March 2008 whereas it recorded a PCU and ACU of approximately 91,000 and 42,000, respectively for the three months ended 31 December 2007.

The PCU for Conquer Online, Eudemons Online and Zero Online for the three months ended 31 March 2008 dropped by approximately 2.9%, 16.6% and 26.4%, respectively, whereas Conquer Online, Eudemons Online and Zero Online also recorded a decrease in ACU for the three months ended 31 March 2008 by approximately 1.5%, 28.6% and 28.6%, respectively, when compared to the three months ended 31 December 2007. The decrease in PCU and ACU for Conquer Online, Eudemons Online and Zero Online was principally caused by no major upgrades were launched and the seasonal factor of Chinese New Year holidays in PRC during the first quarter.

Tou Ming Zhuang Online was launched in late 2007 and achieved a PCU and ACU of approximately 24,000 and 9,000, respectively for the three months ended 31 March 2008 whereas it recorded a PCU and ACU of approximately 20,000 and 6,000, respectively from the date of its launch to 31 December 2007.

Gross profit

For the three months ended 31 March 2008, the unaudited gross profit reached approximately RMB159.0 million with a gross profit margin of about 90.6%, where the unaudited gross profit and gross profit margin were approximately RMB100.9 million and 94.0% respectively for the corresponding period in last year. The decrease in the percentage of gross profit margin was mainly due to the decrease in the player usage as demonstrated by the decreases in ACU for each games as mentioned in the revenue section above and the increase in depreciation of servers as a result of the increased number of servers owned by us as compared with the same period in 2007.

Other revenue and gains

Other revenue and gains for the three months ended 31 March 2008 increased by approximately 900.9% or 9 times to approximately RMB5.4 million as compared with the same period in 2007. The increase was mainly due to the increase in interest income from the net proceeds of the international placing in connection with listing on the GEM.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2008 increased by approximately 20.8% to approximately RMB15.4 million as compared with the same period in 2007. The increase in the amount of selling and marketing expenses was mainly attributable to our continued advertising and promotion expenses for Eudemons Online, Zero Online and Tou Ming Zhuang Online and the increase in the relevant staff cost. In accordance with the terms of agreement signed with China Film Group Corporation, the Company has provided marketing support for promoting the collaboration of Tou Ming Zhuang Online.

Administrative expenses

Administrative expenses increased by approximately 135.9% to approximately RMB25.9 million for the three months ended 31 March 2008 as a result of the continuous expansions of our online game business. The increase in the amount of administrative expenses for the three months ended 31 March 2008 was mainly attributable by i) the significant increase of our business development needs including cooperation with different business partners such as cooperation with China Film Group Corporation; ii) our overall expansion for the Company; and iii) the exchange loss incurred from the appreciation of RMB when converted from other currencies such as USD and HKD for the three months ended 31 March 2008.

Development costs

The increase in development costs was mainly due to the expansion of our development team and the increase of compensation for our employees. The numbers of staff in our development team were 261 and 527 for each of the three months ended 31 March 2007 and 2008, respectively. We also increased the compensation in order to provide a competitive and attractive increment in the basic salary, and we have distributed discretionary bonus for the success of Eudemons Online to further motivate employees.

Other operating expenses

Other operating expenses for the three months ended 31 March 2008 increased by approximately 44.1% to approximately RMB7.9 million as compared with the same period in 2007. The increase in other operating expenses was mainly attributable to the increase in business tax for intercompany transactions as a result of revenue increase. However, the business tax included in “other operating expenses” is only related to intercompany transactions while the business tax for online game revenue is deducted from the gross revenue directly.

Income tax expenses

Income tax expenses for the three months ended 31 March 2008 increased by approximately 310.8% to approximately RMB27.5 million as compared with the corresponding period in 2007. The increase was primarily due to the fact that we had profit before tax of approximately RMB97.5 million for the three months ended 31 March 2008 as compared with a profit before tax of approximately RMB65.2 million for the same period in 2007. In addition, the EIT tax rate applicable to TQ Digital and NetDragon (Fujian) was changed to 25% for the period ended 31 March 2008.

Profit for the period

The unaudited profit for the three months ended 31 March 2008 of the Group increased by approximately 19.6% to approximately RMB69.9 million as compared with the corresponding period in 2007.

Business review and prospects

(1) Business Review

Development of existing games

We provided upgrades of Conquer Online, Eudemons Online, Zero Online and Tou Ming Zhuang Online to players weekly for free downloads. During the period under review, the Group has officially launched the traditional Chinese version of the flagship online games of our Group, Eudemons Online and Zero Online, to the Taiwan market. The Group has entered into a licensing agreement with UserJoy Technology Co., Ltd. (“UserJoy”), according to which, UserJoy will operate the traditional Chinese version of Eudemons Online in Taiwan and the game is expected to be launched this summer. The Group has also entered into another licensing agreement with Wayi International Digital for operating the traditional Chinese version of Zero Online in Taiwan.

In addition, the new game of the Group, Way of the Five (previously named as Happiness Q), was awarded as one of the Online Game suitable for junior by the Ministry of Culture.

With its outstanding results and optimistic outlook of its development, the Group was awarded as one of the “China Best Small & Medium Sized Enterprises 2008” (2008 中國潛力企業) by Forbes (Chinese version), a renowned international financial magazine, in January 2008.

(2) Prospects

The Group is continuously recruiting additional experienced game developers to cope with our game development and enhance the internal training programs by inviting professionals to organise trainings and seminars. As at 31 March 2008, the Company employed a total of 936 staff, of which 527 staff are in the development team. The management will continue its efforts to further strengthen our core game development capabilities by i) recruiting experienced game developers to join our game development team; ii) developing some game development software to replace some manual operation which improved the efficiency on our game development process; and iii) purchasing additional computers and software required for our game development. In addition, we have also invited professionals from difference industries and professors to conduct training sessions to further reinforce the technical knowledge and skills of our game development team.

Currently, the Group is actively developing three 2.5D MMORPGs, namely Way of the Five, Tian Yuan and Heroes of Might and Magic Online. We have commenced the closed and open beta testing of Way of the Five in the fourth quarter of 2007 and it is expected to be launched in the second quarter of 2008. The closed beta testing of Tian Yuan was conducted in February 2007 and scheduled to be launched in the third quarter of 2008. The closed beta testing of Heroes of Might and Magic Online was conducted in December 2007 and is expected to be launched in the second quarter of 2008 according to our schedule. The Company expects to have satisfactory revenue contribution from these games.

The Group endeavours to seek for greater breakthrough for its future business development. The Board has applied to the Stock Exchange for the listing of its shares on Main Board of the Stock Exchange by way of introduction. Upon successful listing, the Company will cancel the listing status of its shares on GEM voluntarily. Besides, in respect of the cooperation with international organisation, the Group has signed a content development and distribution agreement with Buena Vista Internet Group in January 2008.

The Group's successful listing on GEM of the Stock Exchange since November 2007 provided a solid foundation for the Group's long-term development. In a further development, at the end of May 2008, the Company's stock will become a constituent stock of the MSCI China Index. In future, the Group will further enhance its core game development capabilities, streamline its integrated mode of operation, expand its product mix and extend the life cycle of our games in the market in order to enhance the Group's sustainable development capabilities.

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

The shares of the Company were listed on GEM of the Stock Exchange on 2 November 2007. As at 31 March 2008, 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 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 recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.46 to 5.67 of the GEM 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 held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Through controlled corporations	278,959,040(L)	51.64%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan (Note 2)	The Company	Through controlled corporations	278,959,040(L)	51.64%
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%
Zheng Hui (Note 2)	The Company	Through controlled corporations	278,959,040(L)	51.64%
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	Through a controlled corporation	13,000,000(L)	2.41%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.4% of the issued share capital of DJM Holding Ltd., which in turn is interested in 33.95% of the issued share capital of the Company.

Liu Luyuan is interested in 100% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 4.88% of the issued share capital of the Company.

Zheng Hui is interested in 4.6% and 100%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 33.95% and 6.57%, 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% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.24% 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 51.64% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.7%, 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% of the registered capital of NetDragon (Shanghai). 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 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% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.41% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.41% 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 2008, 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 recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, 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

The shares of the Company were listed on GEM of the Stock Exchange on 2 November 2007. So far as is known to the Directors, as at 31 March 2008, 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 recorded in the register required to be 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 Holding Ltd.	The Company	Beneficial owner	183,402,600(L)	33.95%
Fitter Property Inc.	The Company	Beneficial owner	35,498,720(L)	6.57%
Eagle World International Inc. (Note 2)	The Company	Beneficial owner	33,712,920(L)	6.24%
Flowson Company Limited (Note 2)	The Company	Through a controlled corporation	33,712,920(L)	6.24%
IDG Group	The Company	Beneficial owner	78,333,320(L)	14.51%
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 BVI with limited liability and is owned as to 100% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.24% of the issued share capital of the Company through its shareholding in Eagle World International Inc.

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 recorded in the register required to be 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 2008.

SHARE OPTION SCHEME

Pursuant to the resolution of all the shareholders of the Company dated 15 October 2007, the Company adopted a share option scheme the (“Share Option Scheme”). As at the date of this report, no options has been granted under the Share Option Scheme.

COMPETITION AND CONFLICT OF INTEREST

None of the Director or the management shareholders of the Company or any of their respective associates, as defined in the GEM 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 report.

AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.29 of the GEM Listing Rules, the Company established an audit committee with written terms of reference on 15 October 2007. 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 consolidated results for the three months ended 31 March 2008 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.

COMPLIANCE ADVISER’S INTEREST

Pursuant to the compliance adviser agreement dated 29 October 2007 entered into between the Company and First Shanghai Capital Limited (“First Shanghai”), First Shanghai has been appointed as the compliance adviser of the Company for the period commencing from 2 November 2007 and ending on the date on which the Company complies with Rules 18.03 of the GEM Listing Rules in respect of the Company’s financial results for the second full financial year commencing after the date of listing.

As notified by First Shanghai, none of First Shanghai, its directors, employees or associates had any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 March 2008 and as at the date of this report.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules since the commencement of trading of its shares on GEM on 2 November 2007.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors since the commencement of trading of the shares of the Company on GEM on 2 November 2007.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the review period, the Company repurchased a total of 15,858,500 shares on the Stock Exchange at an aggregate consideration of HK\$193,384,936.66 before expenses. Details of the share repurchase are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
January 2008	4,159,500	13.50	12.40	54,823,486.66
February 2008	11,699,000	13.00	11.04	138,561,450.00
	<u>15,858,500</u>			<u>193,384,936.66</u>

The repurchased shares were cancelled on delivery of the share certificates during the review period. The nominal value of the cancelled shares was transferred to the capital redemption reserve and the relevant aggregate consideration was paid out from the Company's retained profits.

The repurchase of the Company shares during the review period were effected by the Directors pursuant to the resolutions of the Board meeting on 10 December 2007, with a view to benefit shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the review period.

As of the date of this report, the Directors are as follows:

Executive Directors:

Mr. Liu Dejian

Mr. Liu Luyuan

Mr. Zheng Hui

Mr. Chen Hongzhan

Non-executive Directors:

Mr. Lin Dongliang

Independent non-executive Directors:

Mr. Chao Guowei, Charles

Mr. Lee Kwan Hung

Mr. Liu Sai Keung, Thomas

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

Fujian, the PRC, 14 May 2008

This report will remain on the GEM website at www.bkgem.com on the "Latest Company Announcements" page for at least seven days from the day of its posting and on the website of the Company at www.nd.com.cn.