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NetDragon Websoft Inc.

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8288)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

FINANCIAL HIGHLIGHTS

	2007	2006	Growth
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	645,214	122,061	428.6%
Gross profit	608,351	110,882	448.6%
Profit for the year	374,837	42,985	772.0%
Earnings per share (RMB cents)	85.01	12.21	

RESULTS

The board (the “Board”) of directors (the “Directors”) of the NetDragon Websoft Inc. (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007.

The Group’s revenue was approximately RMB645.2 million for the year ended 31 December 2007, representing an increase of 428.6% as compared with the same period last year. Gross profit was approximately RMB608.4 million, representing an increase of 448.6% as compared with the same period last year. Profit for the year was approximately RMB374.8 million, representing an increase of 772.0% as compared with the same period last year.

DIVIDENDS

As a token of appreciation for the support from the shareholders of the Company, the Board proposed to distribute final dividend of RMB0.4 per share for the year ended 31 December 2007 after taking into account of financial positions, cash flows, operation and capital requirements and future development needs of the Group. The Board believes that our stable financial conditions and cash flows can fund our future development. We will spend every effort to bring satisfactory rewards to our investors.

CONSOLIDATED INCOME STATEMENTS

	Notes	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Revenue	2	645,214	122,061
Cost of revenue		(36,863)	(11,179)
Gross profit		608,351	110,882
Other revenue and gains		8,321	5,673
Selling and marketing expenses		(80,844)	(13,838)
Administrative expenses		(50,090)	(22,960)
Development costs		(37,253)	(12,835)
Other operating expenses		(21,404)	(15,377)
Operating profit	3	427,081	51,545
Loss on disposal of an associate		—	(2)
Profit before income tax		427,081	51,543
Income tax expense	4	(52,244)	(8,558)
Profit for the year		374,837	42,985
Attributable to			
Equity holders of the Company		374,854	42,856
Minority interests		(17)	129
		374,837	42,985
Dividends	5	295,162	—
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share	6		
– Basic		85.01	12.21
– Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEETS

	Notes	2007 RMB'000	2006 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		61,344	23,211
Land use rights		1,174	—
Available-for-sale financial asset		4,000	4,000
Deferred tax assets		54	201
		<u>66,572</u>	<u>27,412</u>
Current assets			
Investment in trading securities		—	851
Trade and other receivables	7	67,295	40,354
Amounts due from related parties		8,832	11,357
Tax recoverable		581	—
Term deposits with initial term of over three months		50,000	—
Cash and cash equivalents		1,651,380	66,322
		<u>1,778,088</u>	<u>118,884</u>
Current liabilities			
Trade and other payables	8	45,262	37,910
Amounts due to related parties		76	725
Income tax payable		29,940	2,954
		<u>75,278</u>	<u>41,589</u>
Net current assets		<u>1,702,810</u>	<u>77,295</u>
Total assets less current liabilities/Net assets		<u><u>1,769,382</u></u>	<u><u>104,707</u></u>
EQUITY			
Share capital		41,219	1,453
Reserves		1,728,051	103,125
		<u>1,769,270</u>	<u>104,578</u>
Equity attributable to equity holders of the Company		1,769,270	104,578
Minority interests		112	129
		<u>1,769,382</u>	<u>104,707</u>
Total equity		<u><u>1,769,382</u></u>	<u><u>104,707</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital contribution <i>RMB'000</i>	Capital redemption		Statutory reserves <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Dividend reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
				reserve <i>RMB'000</i>	reserve <i>RMB'000</i>							
At 1 January 2006	1,453	16,267	—	—	11,596	2,676	(8)	—	7,985	39,969	—	39,969
Exchange difference arising on translation of overseas operations	—	—	—	—	—	—	(2)	—	—	(2)	—	(2)
Expense recognised directly in equity	—	—	—	—	—	—	(2)	—	—	(2)	—	(2)
Profit for the year	—	—	—	—	—	—	—	—	42,856	42,856	129	42,985
Total recognised income and expense for the year	—	—	—	—	—	—	(2)	—	42,856	42,854	129	42,983
Capital received in advance	—	—	21,755	—	—	—	—	—	—	21,755	—	21,755
Appropriations	—	—	—	—	—	4,092	—	—	(4,092)	—	—	—
At 31 December 2006 and 1 January 2007	1,453	16,267	21,755	—	11,596	6,768	(10)	—	46,749	104,578	129	104,707
Exchange difference arising on translation of overseas operations	—	—	—	—	—	—	(10,797)	—	—	(10,797)	—	(10,797)
Expense recognised directly in equity	—	—	—	—	—	—	(10,797)	—	—	(10,797)	—	(10,797)
Profit for the year	—	—	—	—	—	—	—	—	374,854	374,854	(17)	374,837
Total recognised income and expense for the year	—	—	—	—	—	—	(10,797)	—	374,854	364,057	(17)	364,040
Issue of shares by a subsidiary #	—	69,984	(21,755)	—	170	—	—	—	—	48,399	—	48,399
Issue of shares by the Company	2,053	—	—	—	(1,820)	—	127	—	—	360	—	360
Dividend declared (note 5)	—	—	—	—	—	—	—	—	(79,069)	(79,069)	—	(79,069)
Issue of new shares upon listing	7,046	1,183,554	—	—	—	—	—	—	—	1,190,600	—	1,190,600
Issue of new shares upon capitalisation issue	29,481	(29,481)	—	—	—	—	—	—	—	—	—	—
Issue of new shares by the Company upon exercise of over-allotment options	1,194	200,559	—	—	—	—	—	—	—	201,753	—	201,753
Share issue expenses	—	(59,839)	—	—	—	—	—	—	—	(59,839)	—	(59,839)
Repurchase and cancellation of shares	(8)	(1,561)	—	8	—	—	—	—	(8)	(1,569)	—	(1,569)
Final proposed dividend (note 5)	—	—	—	—	—	—	—	216,093	(216,093)	—	—	—
Appropriations	—	—	—	—	—	54,448	—	—	(54,448)	—	—	—
At 31 December 2007	<u>41,219</u>	<u>1,379,483</u>	<u>—</u>	<u>8</u>	<u>9,946</u>	<u>61,216</u>	<u>(10,680)</u>	<u>216,093</u>	<u>71,985</u>	<u>1,769,270</u>	<u>112</u>	<u>1,769,382</u>

Holding company of the Group before completion of the Group reorganisation.

Notes:

1. General information, basis of preparation and presentation

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability. The registered office of the Company is situated at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and its principal place of business is situated at 58 Hot Spring Branch Road, Fuzhou, Fujian, the People's Republic of China, except Hong Kong (the "PRC").

The Company and its subsidiaries are principally engaged in online game development and operation and marketing of online games.

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost convention except for certain financial assets which are stated at fair value.

The Group has adopted all new and revised HKFRSs which are first effective for the year and relevant to the Group. Those new and revised HKFRSs have been adopted in the preparation of the Group's financial statements including the accountants' report in the Company's prospectus dated 23 October 2007.

The Group has not applied the following new or revised HKFRSs that have been issued but are not yet effective:

HKAS 1 (revised)	Presentation of Financial Statements ³
HKAS 23 (revised)	Borrowing Costs ³
HKFRS 8	Operating Segments ³
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions ¹
HK(IFRIC)-INT 12	Service Concession Arrangements ²
HK(IFRIC)-INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-INT 14	HKAS 19 – The Limit on Defined Benefit Assets, Minimum Funding Requirements and their intention ²

¹ Effective for annual periods beginning on or after 1 March 2007

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 January 2009

⁴ Effective for annual periods beginning on or after 1 July 2008

Among these new standards and interpretations, HKAS 1 (revised) is expected to be relevant to the Group's financial statements.

Amendment to HKAS 1 Presentation of Financial Statements:

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

The Group is in the process of assessing the impact of the other new or revised HKFRSs but are not yet in a position to state whether they would have material impact on the Group's financial statements.

2. Segment information

Based on risks and returns, the Directors consider that the primary reporting format of the Group is by business segment. The Directors consider that there is only one business segment, being online game development and operation and marketing of those online games. Therefore no further information about business segment is presented.

The Group's turnover analysed by geographical markets during the year is presented below:

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	524,652	80,413
United States of America ("USA")	117,030	40,889
Unallocated	3,532	759
	<u>645,214</u>	<u>122,061</u>

The carrying amount of segment assets and capital expenditure analysed by geographical markets is presented below:

	Segment assets	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	481,910	75,702
USA	24,386	9,374
Hong Kong	1,324,896	30,311
Unallocated	13,468	30,909
	<u>1,844,660</u>	<u>146,296</u>

	Capital expenditure	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
PRC	47,440	15,605
USA	64	112
	<u>47,504</u>	<u>15,717</u>

3. Operating profit

The Group's operating profit is arrived at after charging the following items:

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration	603	718
Amortisation of land use rights	5	—
Depreciation of property, plant and equipment	9,341	4,457
Operating lease charges on:		
– land and buildings	2,262	2,182
– computer equipment	17,507	5,361
Development costs (note)	37,253	12,835
Staff costs	68,935	26,812
Net foreign exchange losses	3,710	212
Write off of property, plant and equipment	—	795
Loss on disposal of property, plant and equipment	20	466
Impairment on receivables	541	416
	<u>541</u>	<u>416</u>

Note:

Development costs mainly comprise depreciation of property, plant and equipment of RMB100,000 (2006: RMB164,000) and staff costs of RMB36,268,000 (2006: RMB12,171,000).

The Group did not capitalise any development costs for the year ended 31 December 2007 (2006: Nil).

4. Income tax expense

The major components of income tax expense for the year are as follows:

	2007	2006
	RMB'000	RMB'000
Current tax		
– PRC (note (i))	51,786	1,446
– USA (note (ii))		
Tax for the year	601	1,267
Over-provision in prior years	(290)	—
	52,097	2,713
Deferred income tax	147	5,845
Income tax expense	52,244	8,558

Notes:

- (i) 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 high-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 during the year was 7.5% (2006: 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 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% during the year.

Shanghai Tiankun Digital Technology Ltd. (“NetDragon (Shanghai)”), one of the subsidiaries of the Company, is subject to EIT tax rate of 33% (2006: 33%).

- (ii) The USA income tax rates applicable to the Group are 34% (2006: 34%) for federal tax and 8.84% (2006: 8.84%) for state income tax.
- (iii) The Group is not subject to any taxation under the jurisdictions of the Cayman Islands and the British Virgin Islands during the year (2006: Nil). Provision for Hong Kong profits tax is not made as the Group has not derived any assessable profits in Hong Kong during the year (2006: Nil).

A reconciliation of income tax expense and accounting profit at applicable tax rate is as follows:

	2007	2006
	RMB'000	RMB'000
Profit before income tax	427,081	51,543
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	65,721	8,426
Tax exemptions	(30,917)	(2,790)
Tax effect of non-taxable income	(2,229)	(81)
Tax effect of non-deductible expenses	19,991	2,917
Over-provision in prior years	(290)	—
Others	(32)	86
Income tax expense	52,244	8,558

5. Dividends

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Special dividends paid during the year	79,069	—
Proposed final dividend of RMB0.4 per share (2006: Nil)	216,093	—
	<u>295,162</u>	<u>—</u>

Special dividends were declared and paid by the Company and NetDragon Websoft Inc (“NetDragon (BVI)”) prior to the reorganisation of the Group:

- (a) On 3 February 2007, NetDragon (BVI) declared a special dividend of RMB44,839,000 to its then equity holders.
- (b) On 20 June 2007, NetDragon (BVI) declared a special dividend of RMB34,230,000 to the Company. On the same date, the Company declared the same amount of dividend to its equity holders who are effectively the then equity holders of NetDragon (BVI).

The dividend rates and the number of shares ranking for special dividends are not presented as such information is considered not meaningful for the purpose of this announcement.

The proposed final dividend was determined based on the number of shares as at the date of this announcement taking into account the share redemption of 15,858,500 shares after the year end. The proposed final dividend for the year is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting and therefore, has not been recognised as a liability at the balance sheet date.

6. Earnings per share

The calculation of earnings per share attributable to the equity holders of the Company is calculated based on consolidated profit attributable to the equity holders of the Company for the year of RMB374,854,000 (2006: RMB42,856,000) and on the weighted average number of 440,953,947 (2006: 350,912,060) in issue during the year, as adjusted to reflect the shares issued for capitalisation.

Subsequent to the year end date, the Company repurchased 15,858,500 of its own shares through purchase on the Stock Exchange, which reduced the number of ordinary shares significantly.

Diluted earnings per share for the years ended 31 December 2007 and 2006 have not presented as there were no dilutive potential shares.

7. Trade and other receivables

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	26,940	6,200
Other receivables	6,140	18,837
Deposits and prepayments	34,215	15,317
	<u>67,295</u>	<u>40,354</u>

The ageing analysis of trade receivables at the balance sheet date, based on the invoice date, is as follows:

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances with ages:		
– 30 days or below	22,881	5,764
– 31 - 60 days	1,983	33
– 61 - 90 days	1,876	24
– 91 - 180 days	—	162
– 181 - 365 days	—	144
– Over 365 days	200	73
	<u>26,940</u>	<u>6,200</u>

The Group allows an average credit period ranging from 30 days to 45 days to its trade debtors but the trade debtors usually settle the outstanding balance within 30 days from the billing date.

8. Trade and other payables

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	500	83
Accrued staff costs	5,789	5,515
Value added tax payables and other tax payables	5,333	9,794
Other payables and accrued charges	15,288	13,925
Deferred income	18,352	8,593
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	45,262	37,910
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The ageing analysis of trade payables at the balance sheet date, based on the invoice date, is as follows:

	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances with ages:		
– Within 90 days	500	1
– 91 - 180 days	—	—
– 181 - 365 days	—	1
– Over 365 days	—	81
	<hr/>	<hr/>
	500	83
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MANAGEMENT DISCUSSION AND ANALYSIS

(1) Industry review

With the blossoming PRC economy in 2007, the online game market also experienced prosperous development. The growth rate of online games surpassed the Internet growth rate in China. According to “China Game Industry Survey Report of 2007 (2007年度中國遊戲產業調查報告)” dated 16 January 2008, online game players in China reached a record high of over 40 million in 2007, half of which were paid online game players. It is estimated that the number of online game players in China in 2012 will increase by two-fold to 84.6 million. In addition, according to “China Gaming 2007-2011 Forecast and Analysis” proposed by IDC in April 2007 (the “IDC Report”), it is expected that the revenue generated from online games in China will amount to US\$3 billion in 2011, representing a CAGR of 30.2% from 2006 to 2011. Therefore, the China online game industry has ushered in a new phase of healthy and stable development after years of explorations. This favorable environment enables the Group, as a leading online game developer and operator in the PRC, to rapidly develop its online games and grasp substantial business opportunities.

(2) Financial review

Revenue

Our total revenue for the year ended 31 December 2007 was approximately RMB645.2 million, representing an increase of 428.6% as compared to approximately RMB 122.1 million for the same period last year. The increase of our total revenue was mainly due to the significant increase in the revenue of our existing games, Conquer Online and Eudemons Online. Revenue from Conquer Online and Endemons Online amounted to approximately RMB135.3 million and RMB448.6 million respectively. In addition, revenue from the Group’s newly-launched game, Zero Online, was approximately RMB58.8 million, which was a new source to drive up the overall revenue growth during the year.

Revenue by online game

The table below sets out the breakdown of our revenue by online game:

	Year ended 31 December			
	2007		2006	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Eudemons Online	448,603	69.5	69,489	56.9
Conquer Online	135,326	21.0	51,112	41.9
Zero Online	58,755	9.1	—	—
Tou Ming Zhuang Online	1,816	0.3	—	—
Others	714	0.1	1,460	1.2
Total revenue	<u>645,214</u>	<u>100.0%</u>	<u>122,061</u>	<u>100.0%</u>

Revenue from Eudemons Online was approximately RMB448.6 million, representing an increase of approximately 545.6% as compared with RMB69.5 million for the same period last year. Revenue from Conquer Online for the year ended 31 December 2007 was approximately RMB135.3 million, representing an increase of approximately 164.8% as compared with RMB51.1 million for the same period last year. Zero Online which was launched in April 2007 recorded revenue of approximately RMB58.8 million and Tou Ming Zhuang Online which was launched in December 2007 recorded revenue of approximately RMB1.8 million.

	Year ended 31 December	
	2007	2006
PCU		
Eudemons Online	574,000	325,000
Conquer Online	102,000	82,000
Zero Online	91,000	—
Tou Ming Zhuang Online	20,000	—

Year ended 31 December

	2007	2006
ACU		
Eudemons Online	269,000	70,000
Conquer Online	64,000	52,000
Zero Online	36,000	—
Tou Ming Zhuang Online	6,000	—

PCU and ACU of Eudemons Online for the year ended 31 December 2007 were approximately 574,000 and 269,000 respectively, representing increases of approximately 76.6% and 284.3% respectively as compared with 325,000 and 70,000 respectively for the year ended 31 December 2006.

PCU and ACU of Conquer Online for the year ended 31 December 2007 were approximately 102,000 and 64,000 respectively, representing increases of approximately 24.4% and 23.1% respectively as compared with 82,000 and 52,000 respectively for the year ended 31 December 2006.

For the year ended 31 December 2007, PCU and ACU of Zero Online which was launched in April 2007 were approximately 91,000 and 36,000 respectively.

For the year ended 31 December 2007, PCU and ACU of Tou Ming Zhuang Online which was launched in December 2007 were approximately 20,000 and 6,000 respectively.

Revenue by distribution channel

The table below is a breakdown of our online game revenue by our different distribution and payment channels for the year ended 31 December 2006 and 2007:

	Year ended 31 December			
	2007		2006	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Direct sales				
— online payment systems	401,160	62.2	73,893	60.5
— other direct sales channels	183,210	28.4	23,045	18.9
Pre-paid card sales through distributors	37,551	5.8	21,856	17.9
Cooperation channels	23,293	3.6	3,267	2.7
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Total	645,214	100.0	122,061	100.0
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Gross profit and gross margin

Our gross profit and gross margin were approximately RMB608.4 million and approximately 94.3% respectively for the year ended 31 December 2007 as compared with approximately RMB110.9 million and 90.8% respectively for the same period last year. Gross margin increased by 3.5%, which was mainly due to the increased player usage.

Selling and marketing expenses

Selling and marketing expenses for the year ended 31 December 2007 increased by approximately 484.2% to approximately RMB 80.8 million as compared with the same period in 2006.

Administrative expenses

Administrative expenses increased by approximately 118.2% to approximately RMB 50.1 million for the year ended 31 December 2007 as a result of the continuous expansion of our online game business.

Development costs

Our development costs primarily consist of staff costs and other development-related expenses. Development costs increased by approximately 190.3% to approximately RMB37.3 million for the year ended 31 December 2007 as compared with the same period in 2006.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company for the year ended 31 December 2007 was approximately RMB374.9 million, representing an increase of approximately RMB332.0 million as compared with approximately RMB42.9 million of the same period last year.

Liquidity and capital resources

For the year ended 31 December 2007, we had cash on hand and bank deposits of approximately RMB1,700.1 million as compared with approximately RMB60.8 million for the year ended 31 December 2006.

For the year ended 31 December 2007, the Group had cash deposited with an online payment service providers of approximately RMB1.3 million as compared with RMB5.5 million for the year ended 31 December 2006.

For the year ended 31 December 2007, the Group had net current assets of approximately RMB1,702.8 million as compared with approximately RMB77.3 million for the year ended 31 December 2006.

Net cash generated from operating activities for the year was approximately RMB376.5 million.

Net cash used in investing activities for the year was approximately RMB90.9 million.

Net cash generated from financing activities for the year was approximately RMB1,302.1 million mainly including proceeds from shares issued by the Company.

As we did not have any interest bearing bank loans, our gearing ratio was zero as at 31 December 2006 and 31 December 2007.

As at 31 December 2007, the Group's total equity amounted to approximately RMB1,769.4 million (2006: RMB104.7 million).

The Board is in the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Foreign currency risks

Our present operations are carried out in the USA and the PRC. All our receipts and payments in relation to the operations are principally denominated in RMB and US\$. In this respect, our Directors consider there is no significant currency mismatch in our operational cashflows and we are not exposed to any significant foreign currency exchange risk in our operation.

As at 31 December 2007, the Group had no significant contingent liabilities.

Staff information

As at 31 December 2007, we had a total of 788 employees (2006: 404), 412 of which are game developers, representing 52.3% of the total number of staff.

Prospects and outlook

Online games are experiencing remarkable growth. With the increasing penetration of online games into people's daily life, the online game industry will achieve more rapid development and more online games with greater diversity will be introduced to players. According to IDC Report, CAGR of online game revenue is expected be 30.2% from 2006 to 2011. This favorable environment will place a solid foundation for sustainable development of the online games industry.

We believe free-to-play model still will be extensively adopted in China. Revenue channel will shift from billing the time that players spent on playing games to selling virtual commodities and value-added services. As to types of games, MMORPGs are expected to continue to generate most of the revenue in the online game industry, while casual games are also expected to demonstrate a strong growth momentum. As the PRC domestically developed online games become more successful in the domestic market, Chinese online game companies will become more mature and begin to export more "homemade" games. To distinguish from other competing entertainment industries, online game companies will develop games of greater diversity.

The Group will further strengthen our game development capabilities, enhance our integrated operation model, enrich our product portfolio and extend life cycles of our games. In addition, we will expand our business through acquisition and cooperation with external parties, strengthen our corporate image and promote our games. Based on the strengths that we have, it is believed that the Group will continue to benefit from huge business opportunities in the online game market of exceptional development potential.

Final dividend

The Directors now recommend the payment of a final dividend of RMB0.4 per share.

Annual general meeting

An annual general meeting of the Company will be held on 28 April 2008, notice of which will be published and despatched to the shareholders as soon as practicable in accordance with the Company' articles of association and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

Corporate governance practices

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "Code") set out in Appendix 15 to the GEM Listing Rules. In the opinion of the Board, the Company has complied with the Code throughout the financial year ended 31 December 2007.

Audit committee

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code. The audit committee of the Group has reviewed the audited financial results of the Group for the year ended 31 December 2007.

Purchase, sale or redemption of securities

During the year, the Company repurchased its shares through the Stock Exchange as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
December 2007	116,500	14.48	14.16	1,670,410.00

The repurchased shares were cancelled on delivery of the share certificates during the year. 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 year were effected by the Directors pursuant to the resolutions of the Board meeting on 10 December 2007, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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

Appreciation

The Board would like to take this opportunity to express gratitude to all the shareholders and customers for their continuing support and to thank all staff of the Group for their dedication and contribution to the Group.

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

Hong Kong, 20 March 2008

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. Liu Dejian

Mr. Liu Luyuan

Mr. Zheng Hui

Mr. Chen Hongzhan

Non-executive Directors:

Mr. Lin Dongliang

Mr. Zhu Xinkun

Independent non-executive Directors:

Mr. Chao Guowei, Charles

Mr. Lee Kwan Hung

Mr. Liu Sai Keung, Thomas

This announcement for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website on the , “Latest Company Announcement” page for at least 7 days from the date of its posting and on the website of the Company at www.nd.com.cn.