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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 2009

FINANCIAL HIGHLIGHTS

- The unaudited consolidated revenue of the Group for the three months ended 31 March 2009 amounted to approximately RMB173.9 million (three months ended 31 March 2008: RMB175.6 million), maintaining at a steady level when compared with the same period last year.
- Profit attributable to equity holders of the Company for the three months ended 31 March 2009 amounted to approximately RMB48.9 million (three months ended 31 March 2008: RMB70.0 million), representing a decrease of approximately 30.1% as compared with the same period last year.
- For the three months ended 31 March 2009, the earnings per share amounted to approximately RMB9.31 cents (three months ended 31 March 2008: RMB12.79 cents).
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2009 (three months ended 31 March 2008: Nil).

RESULTS

The board (the “Board”) of directors (the “Directors”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2009 together with the unaudited comparative figures for the corresponding period in 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended	
		31 March	
	<i>Notes</i>	2009	2008
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
		RMB'000	RMB'000
Revenue	4	173,898	175,556
Cost of revenue		<u>(18,882)</u>	<u>(16,533)</u>
Gross profit		155,016	159,023
Other revenue and gains	4	5,934	5,375
Selling and marketing expenses		(27,716)	(15,436)
Administrative expenses		(35,563)	(25,907)
Development costs		(42,574)	(17,679)
Other operating expenses		<u>(1,381)</u>	<u>(7,908)</u>
Operating profit		(53,716)	97,468
Share of results of an associate		<u>(214)</u>	<u>—</u>
Profit before income tax		53,502	97,468
Income tax expense	5	<u>(4,703)</u>	<u>(27,534)</u>
Profit for the period		<u>48,799</u>	<u>69,934</u>
Attributable to			
- Equity holders of the Company		48,943	69,986
- Non-controlling interests		<u>(144)</u>	<u>(52)</u>
		<u>48,799</u>	<u>69,934</u>
Dividends	6	<u>—</u>	<u>—</u>
<i>Earnings per share</i>		<i>RMB cents</i>	<i>RMB cents</i>
- Basic	7	9.31	12.79
- Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three months ended	
	31 March	
	2009	2008
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
Profit for the period	<u>48,799</u>	<u>69,934</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	<u>(1,041)</u>	<u>(42,871)</u>
Other comprehensive income for the period, net of tax	<u>(1,041)</u>	<u>(42,871)</u>
Total comprehensive income for the period, net of tax	<u>47,758</u>	<u>27,063</u>
Total comprehensive income attributable to		
- Equity holders of the Company	47,902	27,115
- Non-controlling interests	<u>(144)</u>	<u>(52)</u>
	<u>47,758</u>	<u>27,063</u>

NOTES:

1. General information

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is situated at Room 306, 3rd Floor, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong.

The Company's shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 November 2007. On 12 June 2008, an extraordinary general meeting ("EGM") were held to approve, among others, the Company's voluntary withdrawal of listing on GEM and proposed listing on the Main Board of the Stock Exchange by way of introduction. The proposed withdrawal was passed by the shareholders at the EGM. Further details are set out in the announcement of the Company dated 12 June 2008.

The shares of the Company have been listed on the Main Board of the Stock Exchange since 24 June 2008.

The Company is an investment holding company. 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 condensed consolidated quarterly results have been prepared in accordance with Hong Kong Financial Reporting Standards which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants.

3. Principal accounting policies

The unaudited condensed consolidated quarterly results for the three months ended 31 March 2009 are prepared under the historical cost convention except for certain financial assets which are stated at fair value, and the accounting policies used in preparing the unaudited consolidated quarterly results are consistent with those followed in the Group's annual financial statement for the year ended 31 December 2008. The Group has adopted new or revised standards, amendments to standards and interpretations of Hong Kong Financial Reporting Standards which are effective for accounting periods commencing on or after 1 January 2009. The adoption of such new or revised standards, amendments to standards and interpretations does not have impact on the financial position and results of the Group and does not result in substantial changes to the Group's accounting policies, but will give rise to additional disclosures.

HKAS 1 (Revised), “Presentation of Financial Statements”, requires all non-owner changes in equity to be shown in a performance statement, but entities can choose whether to present one performance statement (a statement of comprehensive income) or two statements (a profit and loss account and a statement of comprehensive income). The Group has elected to present two statements: the condensed consolidated income statement and the condensed consolidated statement of comprehensive income.

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 condensed 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 users 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 discounts, business tax and other related taxes and charges.
- (ii) Licence fee income included in online game revenue, is recognised on an accrual basis in accordance with the substance of the relevant agreement. The income determined on a time basis is recognized on a straight-line basis over the period of the agreement.
- (iii) Advertising income is recognised when the advertisements are published or broadcasted on the Group’s online game and film advertisement. The advertising income is net of any discounts, business tax and other related taxes and charges.
- (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.
- (v) Interest income is recognised on a time-proportion basis using the effective interest method.

Revenue and gains recognised are as follows:

	Three months ended	
	31 March	
	2009	2008
	RMB'000	RMB'000
Revenue		
Online game revenue	173,898	175,556
Other revenue and gains		
Grants from government	—	590
Fair value gain on derivative financial instruments	184	—
Bank interest income	5,550	4,785
Advertising income	29	—
Exchange gain	21	—
Others	150	—
	<u>5,934</u>	<u>5,375</u>
	<u>179,832</u>	<u>180,931</u>

5. Income tax expense

- (i) PRC enterprise income tax (“EIT”) is calculated at the applicable rates in accordance with the relevant laws and regulations in the People’s Republic of China, except Hong Kong (the “PRC”).

Fujian TQ Digital Inc. (“TQ Digital”) 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 2007 was 7.5%.

Pursuant to a notice issued by a government authority (福建省科學技術廳) on 25 November 2008, TQ Digital continued to be recognised as a hi-tech enterprise for three years starting from 2008. Thereby subject to EIT tax rate of 15% for the periods ended 31 March 2008 and 2009.

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%. Since Fujian NetDragon Websoft Co. Ltd. (“NetDragon (Fujian)”) did not apply to be a hi-tech enterprise in 2008, the EIT tax rate applicable to NetDragon (Fujian) for the periods ended 31 March 2008 and 2009 was 25% accordingly.

Shanghai Tiankun Digital Technology Ltd. (“NetDragon (Shanghai)”) is subject to EIT tax rate of 25% for the period ended 31 March 2009 (period ended 31 March 2008: 25%).

Fujian TQ Online Interactive Inc. is subject to EIT tax rate of 25% for the period ended 31 March 2009 (period ended 31 March 2008: 25%).

Fuzhou NetDragon TianXiang Technology Inc., a newly incorporated PRC subsidiary, is also subject to EIT tax rate of 25% for the period ended 31 March 2009.

- (ii) The USA income tax rates applicable to the Group are 34% for the period ended 31 March 2009 (period ended 31 March 2008: 34%) for federal tax and 8.84% (period ended 31 March 2008: 8.84%) for state income tax.
- (iii) The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands (“BVI”) during the period ended 31 March 2009 (period ended 31 March 2008: Nil). Provision for Hong Kong profits tax is not made as the Group has not derived any assessable profits in Hong Kong during the period ended 31 March 2009 (period ended 31 March 2008: Nil).
- (iv) There was no share of tax attributable to associate included in “Share of results of an associate” in the consolidated income statement (2008: Nil).

6. Dividends

The final dividend of RMB51,275,000 for the year ended 31 December 2008 had been approved by the Directors at the Board meeting and was subsequently paid on 22 April 2009.

The Board does not recommend the payment of interim dividend for the three months ended 31 March 2009 (three months ended 31 March 2008: Nil).

7. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2009 are based on the unaudited consolidated profit attributable to the equity holders of the Company of RMB48,943,000, (three months ended 31 March 2008: RMB69,986,000) and the weighted average number of 525,773,692 shares (three months ended 31 March 2008: 547,369,602 shares) in issue during the period.

Diluted earnings per share for the three months ended 31 March 2009 and 2008 have not presented as there were no dilutive potential shares outstanding.

8. Reserves

For the three months ended 31 March 2008 and 2009, the movements of reserve are as follows:

	Share premium RMB'000	Capital contribution RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Translation reserve RMB'000	Treasury share reserve RMB'000	Dividend reserve RMB'000	Retained profits RMB'000	Total RMB'000
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 and net expenses 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	<u>1,202,896</u>	<u>—</u>	<u>1,145</u>	<u>9,946</u>	<u>61,216</u>	<u>(53,551)</u>	<u>—</u>	<u>216,093</u>	<u>140,834</u>	<u>1,578,579</u>
For the three months ended 31 March 2009 (unaudited)										
At 1 January 2009	1,157,364	—	1,963	9,946	97,692	(55,707)	(12,432)	51,275	164,446	1,414,547
Exchange difference arising on translation of overseas operations and net expense recognised directly in equity	—	—	—	—	—	(1,041)	—	—	—	(1,041)
Profit for the period	—	—	—	—	—	—	—	—	48,943	48,943
Total recognised income and expense for the period	—	—	—	—	—	(1,041)	—	—	48,943	47,902
At 31 March 2009	<u>1,157,364</u>	<u>—</u>	<u>1,963</u>	<u>9,946</u>	<u>97,692</u>	<u>(56,748)</u>	<u>(12,432)</u>	<u>51,275</u>	<u>213,389</u>	<u>1,462,449</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

Our total revenue for the three months ended 31 March 2009 was approximately RMB173.9 million, maintaining at a steady level when compared with the same period last year of approximately RMB175.6 million, but representing an increase of approximately 27.4% as compared to approximately RMB136.5 million for the three months ended 31 December 2008. The increase in revenue was mainly due to (i) the official launch of Chinese version of Way of the Five; (ii) the positive outcome of attacking private servers activities for Eudemons Online; (iii) the launch of Chinese and English version of new expansion pack “New Dynasty” of Conquer Online in the end of 2008; and (iv) the launch of Chinese version of new expansion pack “Divine Path” of Eudemons Online in early 2009.

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

	For the three months ended				
	31 March 2009	31 December 2008	30 September 2008	30 June 2008	31 March 2008
PCU	695,000	591,000	544,000	697,000	669,000
ACU	333,000	317,000	311,000	355,000	313,000

Note: Online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five and other games.

The PCU for online games was approximately 695,000 for the three months ended 31 March 2009, representing an increase of approximately 3.9% from the three months ended 31 March 2008, and representing an increase of approximately 17.6% from the three months ended 31 December 2008.

We also recorded an ACU for online games of approximately 333,000 for the three months ended 31 March 2009, it also represented an increase of approximately 6.4% from the three months ended 31 March 2008 and represented an increase of approximately 5.0% from the three months ended 31 December 2008. The increase of concurrent users for the three months ended 31 March 2009 was mainly contributed by the positive outcome of attacking private servers activities for Eudemons Online in end of 2008 and the official launch of Way of the Five in March 2009.

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

	For the period from 1 January 2009 to 31 March 2009		For the period from 1 October 2008 to 31 December 2008		For the period from 1 January 2008 to 31 March 2008	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
The PRC	134,574	77.4	97,726	71.6	137,865	78.5
Overseas	<u>39,324</u>	<u>22.6</u>	<u>38,740</u>	<u>28.4</u>	<u>37,691</u>	<u>21.5</u>
Total	<u>173,898</u>	<u>100.0</u>	<u>136,466</u>	<u>100.0</u>	<u>175,556</u>	<u>100.0</u>

Our Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the three months ended 31 March 2009 was approximately RMB134.6 million, representing a decrease of approximately 2.4% as compared to approximately RMB137.9 million for the corresponding period in last year. However, the revenue derived from overseas markets for the three months ended 31 March 2009 amounted to approximately RMB39.3 million, representing an increase of approximately 4.3% as compared with that of approximately RMB37.7 million for the same period in last year. The increase in revenue derived from overseas markets was mainly due to (i) the increase of cooperation partners or distributors for selling point cards and online payment services providers for virtual cards which help to extend the coverage of market to different countries such as Malaysia, Egypt, Columbia, etc.; and (ii) the continued increase of revenue derived from English version of Conquer Online operated by the Group.

Gross profit

Our gross profit was approximately RMB155.0 million with a gross profit margin of approximately 89.1% respectively for the three months ended 31 March 2009 as compared with approximately RMB159.0 million and 90.6% respectively for the three months ended 31 March 2008. The decrease in gross profit and the percentage of gross profit margin were mainly due to the increase in leasing expenses for servers as a result of the increase in the number of servers leased by us as compared with the three months ended 31 March 2008.

Other revenue and gains

Other revenue and gains for the three months ended 31 March 2009 increased by approximately 10.4% to approximately RMB5.9 million as compared with the three months ended 31 March 2008. The increase in other revenue and gains was mainly attributable to the increase in interest income derived from increasing the term deposits.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2009 increased by approximately 79.6% to approximately RMB27.7 million as compared with the three months ended 31 March 2008. The increase in the amount of selling and marketing expenses was mainly attributable to our continued advertising and promotion expenses for Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online and Way of the Five. In accordance with the terms of agreement with China Film Group Corporation and Ubisoft Entertainment SA, respectively, the Group has to provide marketing support for promoting the collaboration of Tou Ming Zhuang Online and Heroes of Might and Magic Online.

Further, the increase in the amount of selling and marketing expenses was also caused by the increase in staff costs relating to rising employee compensations and continuously recruiting experienced staff to keep checking, preventing and attacking the private servers activities. The proportion of selling and marketing expenses to the total revenue for each of the three months ended 31 March 2008 and 2009 was approximately 8.8% and 15.9%, respectively.

Administrative expenses

Administrative expenses increased by approximately 37.3% to approximately RMB35.6 million for the three months ended 31 March 2009 as compared with the three months ended 31 March 2008, as a result of the continuous expansions of our online game business. The increase of administrative expenses for the three months ended 31 March 2009 was mainly attributable to (i) the significant increase of administrative team in line with the expansion of development team; (ii) the significant increase of our business development needs including cooperation with different business partners such as China Film Group Corporation, Disney Online Inc. and Electronic Arts Inc. (“EA”); (iii) our overall expansion of the Group; and (iv) the exchange loss resulted from the appreciation of RMB against US dollars (“USD”) and Hong Kong dollars (“HKD”) for the three months ended 31 March 2009. The proportion of administrative expenses to total revenue for the each of the three months ended 31 March 2008 and 2009 was approximately 14.8% and 20.5%, respectively.

Development costs

Development costs increased by approximately 140.8% to approximately RMB42.6 million for the three months ended 31 March 2009 as compared with the three months ended 31 March 2008. The increase in development costs was mainly due to expansion of our development team in line with the development of new online games including cooperation with different business partners as mentioned in the above administrative expenses. The number of staff in our development team increased from 527 as at 31 March 2008 to 1,916 as at 31 March 2009. The increase in the amount of development costs was also caused by the continued increase in staff costs for addressing and resolving the issues of private servers as mentioned in the selling and marketing expenses and co-operation with outsider service company for design and development.

Other operating expenses

Other operating expenses for the three months ended 31 March 2009 decreased by approximately 82.5% to approximately RMB1.4 million as compared with the three months ended 31 March 2008. The decrease in other operating expenses was attributable by (i) there was no expenses incurred for the professional services related to the successful listings of the Company in 2008; and (ii) the decrease in business tax related to intercompany transactions due to the approved non-taxable cooperation revenue being paid by NetDragon (Fujian) to TQ Digital.

Income tax expenses

Income tax expenses for the three months ended 31 March 2009 dropped by approximately 82.9% as compared with the three months ended 31 March 2008. The decrease in income tax expenses was mainly due to the tax benefit entitled for TQ Digital on the technology transfer income followed by 50% tax reduction based on 中華人民共和國國務院(企業所得稅法實施條例) for the year 2008.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company for the three months ended 31 March 2009 was approximately RMB48.9 million, representing a decrease of approximately RMB21.1 million as compared with approximately RMB70.0 million for the three months ended 31 March 2008.

Business review and prospects

Business Review

As one of the leading innovator 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.

Launch of new game

During the period under review, the Group sought to expand its product offerings by continuing to develop additional online games through its own development team.

Way of the Five

The Group has launched a self-developed cartoon-version of the turn-based online game Way of the Five in March 2009. This game received a number of industry awards, including the “Top Ten Most Popular Online Games for 2008” on the “Tencent Online Game Award List for 2008” and the “Top 10 Most Anticipated Online Games” at the Golden Plume Awards. The Group also announced a co-operative arrangement with Mr. Stephen Chow Sing-Chi to promote the game.

Development and licensing of existing games

To help maximise the lifespan of its online games, the Group has continued to launch timely upgrades by offering a variety of customised virtual items and tasks to players in order to enhance the in-game features of its existing units. During the period under review, the Group launched upgrades for its online games on a weekly basis which helped to sustain interest in the game among online players. The Group has also continued to launch expansion packs that offer additional in-game items and premium features to bolster the popularity of its online games. Divine Path was one of the major expansion packs launched during the period under review for the Chinese version of Eudemons Online.

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 have also begun the operations of Zero Online in Thailand in Thai Version in early 2009.

Games in the pipeline

The Group believes that strengthening its core competencies and creative design capability will facilitate the successful development of new online games. The Group also looked for opportunities to develop online games based on popular third party intellectual property. In 2008, the Group entered into cooperation with Disney Online, Inc., to develop Disney Fantasy Online which is expected to be launched in 2009. It has become the most anticipated online game among players who are expecting a totally unique gaming experience.

The Group also made further inroads into the development of MMORPG. To this end, the Group entered into a cooperative agreement with EA for the development of its first 3D MMORPG Dungeon Keeper Online. The partnership with this internationally renowned game developer is proof of the Group's capabilities in game operations and development as well as a reflection of its market reputation.

Enhancement of R&D capabilities

As of 31 March 2009, the Group had increased its overall staff headcount to a total of 2,954, of which 1,916 are members of the development team. This was done in order 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 includes expertises in programming, design and graphics. This type of development team will support our frequent game upgrades and updates to accommodate the latest player preferences and satisfy emerging market trends.

Prospects and outlook

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.

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 Tian Yuan, Disney Fantasy Online, Dungeon Keeper Online and CJ7 Online, etc..

Aside from developing more new game titles, the Group will also continue to focus on updating its existing MMORPGs. This will help provide weekly and quarterly updates for its existing games to include such features as new virtual items and tasks. The Group will also further strengthen its online security and employ defensive measures to prevent the emergence of private servers while reducing any potential negative impact.

The Group is striving to further expand its player base by working with local game operators to selectively offer its in-house developed online games to other markets. It will continue to pursue myriad opportunities to create online games based upon popular third-party intellectual property.

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.

Furthermore, the Group will engineer its game development automation software to replace certain manual and repetitive tasks, which should lead to improved efficiency in the game development process. Additional computers and software will be purchased to accelerate game development procedures. In addition, the Group has also invited professionals from different industries and professions to lead technical training sessions for the game development team to strengthen their development and design capabilities. With a modified and enhanced game development platform and professional game development team, the Group will be able to lay a solid foundation to rapidly and frequently develop and introduce new online games and updates to its existing games.

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

As at 31 March 2009, 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 and 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”) 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 held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Through controlled corporations	280,634,540 (L)	53.09%
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	280,634,540 (L)	53.09%
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	280,634,540 (L)	53.09%
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	13,900,000 (L)	2.63%
Chao Guowei, Charles	The Company	Beneficial owner	49,255 (L)	0.01%
Lee Kwan Hung	The Company	Beneficial owner	49,255 (L)	0.01%
Liu Sai Keung, Thomas	The Company	Beneficial owner	49,255 (L)	0.01%

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 95.40% of the issued share capital of DJM Holding Ltd., 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 Holding Ltd. and Fitter Property Inc., which in turn is interested in 35.01% and 6.72%, 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 6.38% 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 53.09% 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 0.70%, 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 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 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.63% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.63% 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 2009, 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 2009, 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 Holding Ltd.	The Company	Beneficial owner	185,078,100 (L)	35.01%
Fitter Property Inc.	The Company	Beneficial owner	35,498,720 (L)	6.72%
Eagle World International Inc. (Note 2)	The Company	Beneficial owner	33,712,920 (L)	6.38%
Flowson Company Limited (Note 2)	The Company	Through a controlled corporation	33,712,920 (L)	6.38%
IDG Group (Note 3)	The Company	Beneficial owner and through controlled corporations	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 BVI with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.38% 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 2009.

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 2009, 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 (a) 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 (b) a confirmation from the Company that all vesting conditions having been fulfilled.

COMPETITION AND CONFLICT OF INTEREST

None of the Director or any of their respective associates, as defined in 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.

AUDIT COMMITTEE

In compliance with Rules 3.21 and 3.22 of the Listing Rules, the Company established an 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 2009 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 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 2009.

PUBLICATION OF QUARTERLY RESULTS ANNOUNCEMENT AND REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.nd.com.cn).

To enhance the degree of transparency and provide a complete picture of the performance of the Group, the Company has voluntarily published its quarterly results and distributed its quarterly reports since its transfer of listing from the GEM to the Main Board of the Stock Exchange on 24 June 2008. As a matter of conservation, the Directors decided not to distribute copies of its quarterly reports to the shareholders of the Company with effect from and including the period for the three months ended 31 March 2009. The Company will continue to publish its quarterly results on a voluntary basis.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2009, 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, 15 May 2009

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