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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)

**THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS AND NINE MONTHS ENDED
30 SEPTEMBER 2009**

The board (the “Board”) of directors (the “Directors”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2009. The third quarterly results of the Group have been reviewed by Deloitte Touche Tohmatsu, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months and nine months ended 30 September 2009 together with the comparative figures in 2008 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2009	2008	2009	2008
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	4	150,877	136,618	487,646	459,515
Cost of revenue		(21,833)	(17,341)	(62,639)	(49,742)
Gross profit		129,044	119,277	425,007	409,773
Other revenue and gains	4	28,539	13,973	39,926	28,707
Selling and marketing expenses		(31,551)	(26,446)	(98,746)	(70,686)
Administrative expenses		(48,151)	(27,824)	(129,468)	(90,137)
Development costs		(55,484)	(22,713)	(143,253)	(58,343)
Other expenses		(161)	(3,870)	(538)	(23,165)
Changes in fair value of derivative financial instruments		—	20,355	(15,214)	20,793
Changes in fair value of financial assets at fair value through profit or loss		—	(22,318)	18,431	(21,709)
Share of losses of associates		—	—	(724)	—
Profit before taxation		22,236	50,434	95,421	195,233
Taxation	5	(3,250)	450	(10,043)	(29,156)
Profit for the period		18,986	50,884	85,378	166,077
Other comprehensive loss:					
Exchange differences arising on translation of foreign operations		(522)	(1,627)	(720)	(47,428)
Total comprehensive income for the period		18,464	49,257	84,658	118,649
Profit for the period attributable to:					
– Owners of the Company		19,290	50,884	85,682	166,189
– Minority interests		(304)	—	(304)	(112)
		18,986	50,884	85,378	166,077
Total comprehensive income attributable to:					
– Owners of the Company		18,768	49,257	84,962	118,761
– Minority interests		(304)	—	(304)	(112)
		18,464	49,257	84,658	118,649
Earnings per share	7				
– Basic		3.67 cents	9.45 cents	16.30 cents	30.67 cents
– Diluted		3.67 cents	N/A	N/A	N/A

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2009**

	<i>NOTES</i>	30 September 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Non-current assets			
Property, plant and equipment		106,829	96,160
Prepaid lease payments		12,916	7,224
Deposit paid for acquisition of property, plant and equipment		—	7,357
Intangible assets		10,017	10,754
Interests in associates		—	224
Available-for-sale investments		4,000	4,000
Loan receivables		6,180	6,835
Deferred tax assets		54	54
		139,996	132,608
Current assets			
Prepaid lease payments		228	138
Trade and other receivables, prepayments and deposits	8	79,648	81,990
Loan receivables		416	440
Held for trading investments		282	—
Financial assets at fair value through profit or loss		—	311,806
Derivative financial instruments		—	31,857
Amounts due from associates	9	26,000	—
Tax recoverable		74	108
Bank deposits		397,309	629,454
Bank balances and cash		904,140	332,009
		1,408,097	1,387,802
Current liabilities			
Trade and other payables, accruals and deferred income	10	84,514	53,677
Income tax payable		12,721	12,922
		97,235	66,599
Net current assets		1,310,862	1,321,203
		1,450,858	1,453,811
Capital and reserves			
Share capital		39,264	39,264
Share premium and reserves		1,411,898	1,414,547
Equity attributable to owners of the Company		1,451,162	1,453,811
Minority interests		(304)	—
		1,450,858	1,453,811

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009**

	Equity attributable to owners of the Company												
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Statutory reserves	Dividend reserve	Treasury share reserve	Share option reserve	Translation reserve	Retained profits	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008 (audited)	41,219	1,379,483	8	9,946	61,216	216,093	—	—	(10,680)	71,985	1,769,270	112	1,769,382
Exchange difference on translation of foreign operations	—	—	—	—	—	—	—	—	(47,428)	—	(47,428)	—	(47,428)
Profit for the period	—	—	—	—	—	—	—	—	—	166,189	166,189	(112)	166,077
Total comprehensive income and expense for the period	—	—	—	—	—	—	—	—	(47,428)	166,189	118,761	(112)	118,649
Repurchase and cancellation of shares	(1,794)	(217,197)	1,794	—	—	—	—	—	—	(1,794)	(218,991)	—	(218,991)
Purchase of shares for unvested shares under the employee's share award scheme	—	—	—	—	—	—	(14,107)	—	—	—	(14,107)	—	(14,107)
Final dividend for 2007 paid	—	—	—	—	—	(216,093)	—	—	—	—	(216,093)	—	(216,093)
Interim dividend declared and paid	—	—	—	—	—	—	—	—	—	(47,496)	(47,496)	—	(47,496)
At 30 September 2008 (unaudited)	39,425	1,162,286	1,802	9,946	61,216	—	(14,107)	—	(58,108)	188,884	1,391,344	—	1,391,344
At 1 January 2009 (audited)	39,264	1,157,364	1,963	9,946	97,692	51,275	(12,432)	—	(55,707)	164,446	1,453,811	—	1,453,811
Exchange difference on translation of foreign operations	—	—	—	—	—	—	—	—	(720)	—	(720)	—	(720)
Profit for the period	—	—	—	—	—	—	—	—	—	85,682	85,682	(304)	85,378
Total comprehensive income and expense for the period	—	—	—	—	—	—	—	—	(720)	85,682	84,962	(304)	84,658
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	1,872	—	—	1,872	—	1,872
Final dividend for 2008 paid	—	—	—	—	—	(51,275)	—	—	—	—	(51,275)	—	(51,275)
Interim dividend declared and paid	—	—	—	—	—	—	—	—	—	(38,208)	(38,208)	—	(38,208)
At 30 September 2009 (unaudited)	39,264	1,157,364	1,963	9,946	97,692	—	(12,432)	1,872	(56,427)	211,920	1,451,162	(304)	1,450,858

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009

1. GENERAL

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability. The Company's shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 November 2007. On 12 June 2008, an extraordinary general meeting (the "EGM") was held to approve, among others, the Company's voluntary withdrawal of listing on the 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. The shares of the Company have been listed on the Main Board of the Stock Exchange since 24 June 2008. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 306, 3rd Floor, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong.

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

The interim financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) - INT 13	Customer Loyalty Programmes
HK(IFRIC) - INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) - INT 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) - INT 18	Transfer of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The adoption of the new and revised HKFRSs has had no material effect on the interim financial information of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ³
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Rights Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ⁵
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ⁵
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁶
HK(IFRIC) - INT 17	Distributions of Non-cash Assets to Owners ¹

¹ Effective for annual periods beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 February 2010

⁵ Effective for annual periods beginning on or after 1 January 2010

⁶ Effective for annual periods beginning on or after 1 January 2013

* IFRIC represents the International Financial Reporting Interpretations Committee

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the interim financial information of the Group.

4. REVENUE

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivables for services provided in the normal course of business and net of discounts.

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.

Revenue and other revenue and gains recognised are as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
Online game revenue	150,877	136,618	487,646	459,515
Other revenue and gains				
Advertising income	593	2,622	1,462	5,609
Bank interest income	2,832	7,288	11,976	17,528
Business tax refunded	13,869	—	13,869	—
Change in fair value of held for trading investments	2,443	—	2,443	—
Government grants (<i>Note</i>)	8,121	3,676	9,431	4,872
Others	681	387	745	698
	28,539	13,973	39,926	28,707

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

5. TAXATION

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
The charge (credit) comprises:				
The PRC Enterprise Income Tax	3,170	(569)	9,865	28,818
Taxation in other jurisdictions	80	119	178	338
	<u>3,250</u>	<u>(450)</u>	<u>10,043</u>	<u>29,156</u>

The PRC Enterprise Income Tax ("EIT") is calculated at the applicable prevailing rates in the PRC.

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

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

6. DIVIDEND

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Final dividend of Hong Kong Dollar ("HK\$") 0.11 per share for the year ended 31 December 2008 recognised as distribution during the interim period (2008: HK\$0.43 per share for the year ended 31 December 2007)	<u>—</u>	<u>—</u>	<u>51,275</u>	<u>216,093</u>

Interim dividend of HK\$0.082 per share for the six months ended 30 June 2009 (six months ended 30 June 2008: HK\$0.1 per share), amounting to RMB38,208,000 (six months ended 30 June 2008: RMB47,496,000) in aggregate, had been approved by the Directors at the board meeting and was paid on 14 September 2009.

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2009 (three months ended 30 September 2008: Nil).

7. EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share	<u>19,290</u>	<u>50,884</u>	<u>85,682</u>	<u>166,189</u>
	Number of shares			
	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	'000	'000	'000	'000
Number of shares for the purpose of calculating basic earnings per share	<u>525,774</u>	<u>538,358</u>	<u>525,774</u>	<u>541,916</u>
Potential dilutive shares issuable under the Company's employee's share award scheme	<u>175</u>		<u>—</u>	
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>525,949</u>		<u>525,774</u>	

The presentation of diluted earnings per share for the nine-month period ended 30 September 2009 has not taken the effect of unvested shares because the exercise price of the Company's unvested shares under share award scheme was higher than the average market price for shares.

No diluted earnings per share has been presented for the three-month and nine-month periods ended 30 September 2008 since there are no potential ordinary shares during the periods.

8. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	At 30 September	At 31 December
	2009	2008
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Trade receivables	9,462	9,500
Other receivables	23,106	24,624
Prepayments and deposits	<u>47,080</u>	<u>47,866</u>
	<u>79,648</u>	<u>81,990</u>

8. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Cont'd)

The Group allows a credit period ranging from 30 to 45 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date.

	At 30 September 2009 (Unaudited) RMB'000	At 31 December 2008 (Audited) RMB'000
0 - 30 days	5,936	6,976
31 - 60 days	2,561	2,197
61 - 90 days	235	56
Over 90 days	730	271
	<u>9,462</u>	<u>9,500</u>

9. AMOUNTS DUE FROM ASSOCIATES

The amounts of RMB8,000,000 and RMB18,000,000 are unsecured, non-interest bearing and repayable on 1 February 2010 and 19 March 2010 respectively.

10. TRADE AND OTHER PAYABLES, ACCRUALS AND DEFERRED INCOME

Included in trade and other payables, accruals and deferred income are trade payables with an aged analysis as follows:

	At 30 September 2009 (Unaudited) RMB'000	At 31 December 2008 (Audited) RMB'000
0 - 90 days	263	185
91 - 180 days	30	24
181 - 365 days	—	10
Over 365 days	11	—
	<u>304</u>	<u>219</u>

OPERATION INFORMATION

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

	30 September 2009	For the three months ended			
		30 June 2009	31 March 2009	31 December 2008	30 September 2008
PCU	519,000	632,000	695,000	591,000	544,000
ACU	273,000	310,000	333,000	317,000	311,000

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 519,000 for the three months ended 30 September 2009, representing a decrease of approximately 17.9% from the three months ended 30 June 2009 and representing a decrease of approximately 4.6% from the three months ended 30 September 2008.

We also recorded the ACU for online games of approximately 273,000 for the three months ended 30 September 2009, which represented a decrease of approximately 11.9% from the three months ended 30 June 2009 and represented a decrease of approximately 12.2% from the three months ended 30 September 2008.

FINANCIAL PERFORMANCE HIGHLIGHTS

Nine months ended 30 September 2009

The following table sets forth the comparative figures for the nine months ended 30 September 2009 and 2008:

	Nine months ended	
	30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	487,646	459,515
Cost of revenue	(62,639)	(49,742)
Gross profit	425,007	409,773
Other revenue and gains	39,926	28,707
Selling and marketing expenses	(98,746)	(70,686)
Administrative expenses	(129,468)	(90,137)
Development costs	(143,253)	(58,343)
Other expenses	(538)	(23,165)
Changes in fair value of derivative financial instruments	(15,214)	20,793
Changes in fair value of financial assets at fair value through profit or loss	18,431	(21,709)
Share of losses of associates	(724)	—
Profit before taxation	95,421	195,233
Taxation	(10,043)	(29,156)
Profit for the period	85,378	166,077
Profit for the period attributable to:		
– Owners of the Company	85,682	166,189
– Minority interests	(304)	(112)
	85,378	166,077

Revenue

Revenue increased by approximately 6.1% to approximately RMB487.6 million for the nine months ended 30 September 2009 from approximately RMB459.5 million for the nine months ended 30 September 2008.

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

	For the period from 1 January 2009 to 30 September 2009		For the period from 1 January 2008 to 30 September 2008	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
The PRC	385,874	79.1	348,624	75.9
Overseas	101,772	20.9	110,891	24.1
Total	487,646	100.0	459,515	100.0

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 nine months ended 30 September 2009 was approximately RMB385.9 million, representing an increase of approximately 10.7% over the same period in 2008.

The revenue derived from overseas markets for the nine months ended 30 September 2009 was approximately RMB101.8 million, representing a decrease of approximately 8.2% over the same period in 2008.

Third Quarter of 2009

Revenue

Revenue for the third quarter of 2009 was approximately RMB150.9 million, representing an increase of approximately 10.4% over the same period in 2008 and a decrease of approximately 7.4% from the second quarter of 2009.

Cost of revenue

Cost of revenue for the third quarter of 2009 was approximately RMB21.8 million, representing an increase of approximately 25.9% over the same period in 2008 and maintained at a steady level as compared with the second quarter of 2009.

Other revenue and gains

Other revenue and gains of approximately RMB28.5 million were recorded for the third quarter of 2009, compared to other revenue and gains of approximately RMB14.0 million for the same period in 2008 and other revenue and gains of approximately RMB5.6 million for the second quarter of 2009.

Selling and marketing expenses

Selling and marketing expenses for the third quarter of 2009 were approximately RMB31.6 million, representing an increase of approximately 19.3% over the same period in 2008 and a decrease of approximately 20.1% from the second quarter of 2009.

Administrative expenses

Administrative expenses for the third quarter of 2009 were approximately RMB48.2 million, representing an increase of approximately 73.1% over the same period in 2008 and an increase of approximately 5.2% from the second quarter of 2009.

Development costs

Development costs for the third quarter of 2009 were approximately RMB55.5 million, representing an increase of approximately 144.3% over the same period in 2008 and an increase of approximately 22.8% from the second quarter of 2009.

Other expenses

Other expenses for the third quarter of 2009 were approximately RMB0.2 million, representing a decrease of approximately 95.8% over the same period in 2008 and an increase of approximately 20.1% from the second quarter of 2009.

Profit for the period

Profit for the third quarter of 2009 was approximately RMB19.0 million, representing a decrease of approximately 62.7% over the same period in 2008 and an increase of approximately 7.9% from the second quarter of 2009. As a percentage of revenue, profit for the period accounted for approximately 12.6% for the third quarter of 2009, compared to approximately 37.2% for the same period of 2008 and approximately 10.8% for the second quarter of 2009.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the third quarter of 2009 was approximately RMB19.3 million, representing a decrease of approximately 62.1% over the same period in 2008 and an increase of approximately 10.6% from the second quarter of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2009 Compared to Second Quarter of 2009

The following table sets forth the comparative figures for the third quarter of 2009 and the second quarter of 2009:

	Three months ended	
	30 September 2009	30 June 2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	150,877	162,871
Cost of revenue	(21,833)	(21,924)
Gross profit	129,044	140,947
Other revenue and gains	28,539	5,637
Selling and marketing expenses	(31,551)	(39,479)
Administrative expenses	(48,151)	(45,754)
Development costs	(55,484)	(45,195)
Other expenses	(161)	(134)
Changes in fair value of derivative financial instruments	—	(14,076)
Changes in fair value of financial assets		
at fair value through profit or loss	—	18,247
Share of losses of associates	—	(510)
Profit before taxation	22,236	19,683
Taxation	(3,250)	(2,090)
Profit for the period	18,986	17,593
Profit for the period attributable to:		
– Owners of the Company	19,290	17,449
– Minority interests	(304)	144
	18,986	17,593

FINANCIAL REVIEW

Revenue

Our total revenue for the three months ended 30 September 2009 was approximately RMB150.9 million, representing a decrease of approximately 7.4% as compared to approximately RMB162.9 million for the three months ended 30 June 2009. The decrease in revenue was mainly due to the industry seasonal effect.

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

	For the period from 1 July 2009 to 30 September 2009		For the period from 1 April 2009 to 30 June 2009	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
The PRC	118,797	78.7	132,503	81.4
Overseas	32,080	21.3	30,368	18.6
	<u>150,877</u>	<u>100.0</u>	<u>162,871</u>	<u>100.0</u>

The revenue derived from the PRC for the three months ended 30 September 2009 was approximately RMB118.8 million, representing a decrease of approximately 10.3% as compared to approximately RMB132.5 million for the second quarter of 2009. The decrease in revenue derived from the PRC was mainly due to the industry seasonal effect.

The revenue derived from overseas markets for the three months ended 30 September 2009 amounted to approximately RMB32.1 million, representing an increase of approximately 5.6% as compared to approximately RMB30.4 million for the second quarter of 2009. The reason for the increase was mainly due to (i) the launch of new expansion packs for English, French and Spanish versions of Conquer Online; and (ii) the launch of Traditional Chinese version expansion packs of Eudemons Online.

Cost of revenue

Cost of revenue for the three months ended 30 September 2009 was approximately RMB21.8 million which maintained at a steady level as compared with the second quarter of 2009.

Gross profit

Our gross profit for the three months ended 30 September 2009 was approximately RMB129.0 million, representing a decrease of approximately 8.4% as compared to approximately RMB140.9 million for the second quarter of 2009.

However, the gross profit margin for the three months ended 30 September 2009 was approximately 85.5%, representing a decrease of approximately 1.0% as compared to approximately 86.5% for the second quarter of 2009.

Other revenue and gains

Other revenue and gains for the three months ended 30 September 2009 increased by approximately 406.3% to approximately RMB28.5 million as compared with the three months ended 30 June 2009. The increase in other revenue and gains was mainly due to the tax benefit entitled for the business tax refund of approximately RMB13.9 million approved by the local taxation bureau in Fuzhou Economic & Technological Development Zone of Fujian Province (福建省福州市經濟技術開發區地方稅務局) (“Fuzhou Development Zone Tax Authority”) in August and September 2009. The business tax refund was based on a notice issued by the PRC Ministry of Finance and the State Administration of Taxation (財政部國家稅務總局) (Cai Shui Zi [1999] No. 273) (財稅字[1999]273號), Fujian TQ Digital Inc (“TQ Digital”) (one of the Company’s subsidiaries) is entitled to the tax benefit on the technology transfer income followed by business tax exemption from 2007.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 September 2009 decreased by approximately 20.1% to approximately RMB31.6 million as compared with the three months ended 30 June 2009. The decrease in the amount of selling and marketing expenses was mainly due to the net effect of (i) the cut down of advertising and promotion activities for the delay in the launch of new games; and (ii) the marketing support for promoting the collaboration of Heroes of Might and Magic Online provided by the Group pursuant to the agreement with Ubisoft Entertainment SA (“Ubisoft”).

However, there is an 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 number of staff in our selling and marketing team was recorded as 631 as at 30 September 2009, which maintained in steady level as compared with the number of staff as at 30 June 2009. The slow-down of recruitment started from late third quarter of 2009 as mentioned in the section below headed “STAFF INFORMATION”, therefore the effect has not yet been reflected during the period under review.

The proportion of selling and marketing expenses to the total revenue for each of the three months ended 30 June 2009 and 30 September 2009 was approximately 24.2% and approximately 20.9%, respectively.

Administrative expenses

Administrative expenses increased by approximately 5.2% to approximately RMB48.2 million for the three months ended 30 September 2009 as compared with the three months ended 30 June 2009, as a result of the continuous expansion of our business. The increase of administrative expenses for the three months ended 30 September 2009 was mainly attributable to overall expansion of the Group.

The proportion of administrative expenses to total revenue for each of the three months ended 30 June 2009 and 30 September 2009 was approximately 28.1% and approximately 31.9%, respectively.

Development costs

Development costs increased by approximately 22.8% to approximately RMB55.5 million for the three months ended 30 September 2009 as compared with the three months ended 30 June 2009. The number of staff in our development team was 1,951 as at 30 September 2009, which maintained at a steady level as compared with the number of staff as at 30 June 2009. The slow-down of recruitment started from late third quarter of 2009 as mentioned in the section below headed “STAFF INFORMATION”, therefore the effect has not yet been reflected during the period under review. The increase in the amount of development costs was caused by (i) the continued increase in staff costs for addressing and resolving the issues of private servers as mentioned in the above paragraph headed “Selling and marketing expenses”; (ii) continued increase in co-operation with outsider service companies for design and development; and (iii) expansion of new business lines.

Other expenses, changes in fair value of derivative financial instruments and changes in fair value of financial assets at fair value through profit or loss

The net amount of other expenses, changes in fair value of derivative financial instruments and changes in fair value of financial assets at fair value through profit or loss for the three months ended 30 September 2009 was recorded approximately RMB0.2 million. The decrease compared with the three months ended 30 June 2009 in the net amount of other expenses, changes in fair value of derivative financial instruments, changes in fair value of financial assets at fair value through profit or loss was attributable to no fair value changes in derivative financial instruments and financial assets at fair value through profit or loss due to the maturity during the second quarter of 2009.

Taxation

Taxation for the three months ended 30 September 2009 raised by approximately 55.5% as compared with the three months ended 30 June 2009.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 September 2009 was approximately RMB19.3 million, representing an increase of approximately RMB1.9 million as compared with approximately RMB17.4 million for the three months ended 30 June 2009.

Third Quarter of 2009 Compared to Third Quarter of 2008

The following table sets forth the comparative figures for the third quarter of 2009 and the third quarter of 2008:

	Three months ended	
	30 September	
	2009	2008
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	150,877	136,618
Cost of revenue	(21,833)	(17,341)
Gross profit	129,044	119,277
Other revenue and gains	28,539	13,973
Selling and marketing expenses	(31,551)	(26,446)
Administrative expenses	(48,151)	(27,824)
Development costs	(55,484)	(22,713)
Other expenses	(161)	(3,870)
Changes in fair value of derivative financial instruments	—	20,355
Changes in fair value of financial assets at fair value through profit or loss	—	(22,318)
Share of losses of associates	—	—
Profit before taxation	22,236	50,434
Taxation	(3,250)	450
Profit for the period	18,986	50,884
Profit for the period attributable to:		
– Owners of the Company	19,290	50,884
– Minority interests	(304)	—
	18,986	50,884

FINANCIAL REVIEW

Revenue

Our total revenue for the three months ended 30 September 2009 was approximately RMB150.9 million, representing an increase of approximately 10.4% as compared to approximately RMB136.6 million for the three months ended 30 September 2008. The increase in revenue was mainly due to the official launch of Chinese version of Way of the Five.

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

	For the period from 1 July 2009 to 30 September 2009		For the period from 1 July 2008 to 30 September 2008	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
The PRC	118,797	78.7	96,905	70.9
Overseas	32,080	21.3	39,713	29.1
	<u>150,877</u>	<u>100.0</u>	<u>136,618</u>	<u>100.0</u>

The revenue derived from the PRC for the three months ended 30 September 2009 was approximately RMB118.8 million, representing an increase of approximately 22.6% as compared to approximately RMB96.9 million for the corresponding period in last year. The increase in revenue derived from the PRC was mainly due to the launch of Way of the Five in March 2009.

The revenue derived from overseas markets for the three months ended 30 September 2009 amounted to approximately RMB32.1 million, representing a decrease of approximately 19.2% as compared with that of approximately RMB39.7 million for the same period in last year. The reason for the decrease was mainly affected by the industry seasonal effect.

Cost of revenue

Cost of revenue for the three months ended 30 September 2009 increased by approximately 25.9% to approximately RMB21.8 million as compared with the three months ended 30 September 2008. The increase in cost of revenue was mainly due to (i) 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 30 September 2008; and (ii) the increase of licensing fees paid to cooperation partners for the intellectual property rights.

Gross profit

Our gross profit for the three months ended 30 September 2009 was approximately RMB129.0 million, representing an increase of approximately 8.2% as compared to approximately RMB119.3 million for the corresponding period in last year.

However, the gross profit margin for the three months ended 30 September 2009 was approximately 85.5%, representing a decrease of approximately 1.8% as compared to approximately 87.3% for the corresponding period in last year. The decrease of the gross profit margin was mainly due to the increase of revenue in terms of change in percentage was much lower than the increase of cost of revenue in terms of change in percentage.

Other revenue and gains

Other revenue and gains for the three months ended 30 September 2009 increased by approximately 104.2% to approximately RMB28.5 million as compared with the three months ended 30 September 2008. The increase in other revenue and gains was mainly due to the tax benefit entitled for the business tax refund of approximately RMB13.9 million approved by the Fuzhou Development Zone Tax Authority in August and September 2009. The business tax refund was based on a notice issued by the PRC Ministry of Finance and the State Administration of Taxation (Cai Shui Zi [1999] No.273), TQ Digital is entitled to the tax benefit on the technology transfer income followed by business tax exemption from 2007.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 September 2009 increased by approximately 19.3% to approximately RMB31.6 million as compared with the three months ended 30 September 2008. The increase in the amount of selling and marketing expenses was mainly attributable to our continued advertising and promotion expenses for Heroes of Might and Magic Online in accordance with the terms of agreement with Ubisoft, whereby the Group is required to provide marketing support for promoting the collaboration of 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 30 September 2008 and 2009 was approximately 19.4% and approximately 20.9%, respectively.

Administrative expenses

Administrative expenses increased by approximately 73.1% to approximately RMB48.2 million for the three months ended 30 September 2009 as compared with the three months ended 30 September 2008, as a result of the continuous expansion of our business. The increase of administrative expenses for the three months ended 30 September 2009 was mainly attributable to (i) the increase in the staff number of administrative team along with the expansion of development team; and (ii) our overall expansion of the Group.

The proportion of administrative expenses to total revenue for each of the three months ended 30 September 2008 and 2009 was approximately 20.4% and approximately 31.9%, respectively.

Development costs

Development costs increased by approximately 144.3% to approximately RMB55.5 million for the three months ended 30 September 2009 as compared with the three months ended 30 September 2008. The number of staff in our development team increased from 1,093 as at 30 September 2008 to 1,951 as at 30 September 2009. The increase in the amount of development costs was caused by (i) the continued increase in staff costs for addressing and resolving the issues of private servers as mentioned in the above paragraph headed “Selling and marketing expenses”; (ii) continued increase in co-operation with outsider service companies for design and development; and (iii) expansion of new business lines.

Other expenses, changes in fair value of derivative financial instruments and changes in fair value of financial assets at fair value through profit or loss

The net amount of other expenses, changes in fair value of derivative financial instruments and changes in fair value of financial assets at fair value through profit or loss for the three months ended 30 September 2009 decreased by approximately 97.2% to approximately RMB0.2 million as compared with the three months ended 30 September 2008. The decrease in the net amount of other expenses, changes in fair value of derivative financial instruments and changes in fair value of financial assets at fair value through profit or loss was attributable to (i) decrease in professional services fees in 2009 as there was no expense incurred in the current period for professional services related to the listing of the Company; (ii) decrease in business tax related to intercompany transactions due to the approved non-taxable cooperation revenue being paid by Fujian NetDragon Websoft Co. Ltd (“NetDragon (Fujian)”) (one of the Company’s subsidiaries pursuant to the structure contracts) to TQ Digital during the year of 2008; and (iii) no fair value changes in derivative financial instruments and financial assets at fair value through profit or loss due to the maturity during the second quarter of 2009.

Taxation

Taxation for the three months ended 30 September 2009 raised by approximately 822.2% as compared with the three months ended 30 September 2008. The increase in taxation was mainly due to the the EIT refund of approximately RMB9.8 million approved by the Fuzhou Development Zone Tax Authority in September 2008. The EIT refund was related to the overpayment of EIT of NetDragon (Fujian) for the year ended 31 December 2007. The overpayment of EIT was related to an expense allowed by Fuzhou Development Zone Tax Authority for deduction.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 September 2009 was approximately RMB19.3 million, representing a decrease of approximately RMB31.6 million as compared with approximately RMB50.9 million for the three months ended 30 September 2008.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2009, we had bank deposits, bank balances and cash of approximately RMB1,301.4 million as compared with approximately RMB961.5 million as at 31 December 2008.

As at 30 September 2009, the Group had net current assets of approximately RMB1,310.9 million as compared with approximately RMB1,321.2 million as at 31 December 2008.

STAFF INFORMATION

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

	At 30 September 2009	At 30 June 2009	At 30 September 2008
Game development	1,951	1,963	1,093
Game operation and marketing	631	646	543
Accounting, finance and general administration	509	500	333
Total	<u>3,091</u>	<u>3,109</u>	<u>1,969</u>

As at 30 September 2009, we had a total of 3,091 employees (30 September 2008 and 30 June 2009: 1,969 and 3,109, respectively), 1,951 of which are developers, representing approximately 63.1% of the total number of staff.

After near two years' expansion of the Group, we have slowed down the recruitment and maintain the existing headcount in a more stable level which can be shown from the headcounts of 30 June and 30 September 2009.

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

BUSINESS REVIEW AND PROSPECTS

Business review

The Group celebrated its 10th anniversary by hosting the “91 Carnival” and “A Grateful Decade Full of Boundless Dreams – NetDragon Awards Ceremony” on 1 September 2009. Over the past decade, the Group has witnessed the blossoming of China’s online game industry since its birth and has positioned itself as a leader to be reckoned with.

As one of the leading innovators 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 games

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.

Disney Fantasy Online

The Group has commenced the open beta testing of an online fantasy world envisioned to be a turn-based MMORPG playing strategy game targeted at a broad demographic.

Tian Yuan

During the period under review, the Group also commenced the closed beta testing of a self-developed 2.5D MMORPG targeting players interest in martial art games.

Development and licensing of existing games

To 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 games 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. Both Chinese and English expansion packs named Expanding Horizons of Zero Online were launched in February and May 2009, respectively. Divine Path was one of the major expansion packs launched for the Chinese, English and other language versions of Eudemons Online in 2009. Another Chinese expansion pack for Eudemons Online, the Demon Rising, was launched the Chinese version in September 2009. The Group also launched another expansion packs named Raiding Clans for Chinese, English and other language versions of Conquer Online in 2009.

During the period under review, the Group has commenced the open beta testing for the Arabic version of Conquer Online in Saudi Arabia. The Arabic version of Conquer Online has added Arabian style costumes and will launch religious festive tasks based on “Ramadan” and “Lesser Bairam”.

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 commenced the operations of Zero Online in Thailand and Vietnam in Thai and Vietnam Version in early 2009, respectively. We also launched the English version of Tou Ming Zhuang Online in April 2009. During the period under review, the Group entered into several licensed agreements for its own in-house developed online games in different languages in Hong Kong, Japan, Macau, Russia, Taiwan and Vietnam. We expect to commence the operation of these games in 2010.

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 explored 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. The Group entered into a cooperative agreement with Electronic Arts Inc. (“EA”) for the development of its first 3D MMORPG Dungeon Keeper Online in 2008 and further entered into another cooperative agreement with EA for the development of its MMORPG Ultima Online in 2009.

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

Expanding of business lines

The Group has continued to explore different opportunities to expand our business lines. We continued to develop mobile software applications with which the Group is targeting China’s emerging smart-phone users.

The mobile software application project contributes an important part of our wireless business. At of 30 September 2009, the Group has 231 members being employed for the mobile software application project. It demonstrated a strong development strength and operational capabilities in a variety of mobile phone platforms. The self-development application named “91 Panda Reader” becomes the favourite applications for the mobile users. We want to provide more human-friendly mobile terminal application software to users in the next two years.

During the period under review, “91 Panda Reader” was chosen as one of the 二零零八年第四屆中國無綫互聯網站暨用戶端TOP 50.

Enhancement of R&D capabilities

As of 30 September 2009, the Group's overall staff headcount was 3,091, of which 1,951 were members of the development team. The structure was designed to expand and diversify game offerings, while extending the market reach of its product portfolio and to further leverage the inherent advantages of vertical integration as a leading developer and operator of online games. The Group's game development team has gathered expertise in programming, design and graphics, which 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, Ultima 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 improve efficiency in the game development process. Additional computers and software will be purchased to accelerate game development procedures. 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 new expansion packs to its existing games.

To cope with the path of strengthening of the game development process, the Group also continues to enhance its integrated operation model including business process management system, time management system, bug management system, production schedules system and version management system, which should help to improve the efficiency in the game operation, project management and office administrative processes. At of 30 September 2009, the Group had 222 members being employed for the enhancing its integrated operation model.

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

As at 30 September 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”) as set out in Appendix 10 to 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	276,902,040 (L)	52.38%
Liu Dejian (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian (Note 3)	Shanghai Tiankun Digital Technology Ltd. (“NetDragon (Shanghai)”)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan (Note 2)	The Company	Through controlled corporations	276,902,040 (L)	52.38%
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	276,902,040 (L)	52.38%

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
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 6.15%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.23% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has 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 52.38% 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 has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).
4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.63% 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 30 September 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 30 September 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	32,526,220(L)	6.15%
Eagle World International Inc. (Note 2)	The Company	Beneficial owner	32,952,920(L)	6.23%
Flowson Company Limited (Note 2)	The Company	Through a controlled corporation	32,952,920(L)	6.23%
IDG Group (Note 3)	The Company	Beneficial owner	78,333,320(L)	14.83%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the British Virgin Islands with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.23% of the issued share capital of the Company through its shareholding in Eagle World International Inc.

3. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.06%, 9.84%, 2.01% and 0.92%, respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships are as follows:
- a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Patrick J. McGovern.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Patrick J. McGovern.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by James W. Breyer.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 September 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 30 September 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 (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

AUDIT COMMITTEE

In compliance with Rules 3.21 and 3.22 of the Listing Rules, the Company established the Audit Committee with written terms of reference. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems of the Group. The Audit Committee comprises three members, Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas, all being 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 and nine months ended 30 September 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 disclosure has been made.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the nine months ended 30 September 2009.

MODEL 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 the Model Code of the Listing Rules. Having made specific enquiries of all Directors, the Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors for the nine months ended 30 September 2009.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 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, 25 November 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.