NetDragon Websoft Inc.
網 龍 網 絡 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 777)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

- The consolidated revenue of the Group for the year ended 31 December 2008 amounted to approximately RMB596.0 million (year ended 31 December 2007: RMB645.2 million), representing a decrease of approximately 7.6% as compared with the same period last year. However, the unaudited consolidated revenue of the Group for the three months ended 31 December 2008 amounted to approximately RMB136.5 million, maintaining at a steady level when compared with the three months ended 30 September 2008 of approximately RMB136.6 million, but representing a decrease of approximately 28.9% as compared with that of approximately RMB191.9 million for the same period in last year.

- Profit attributable to equity holders of the Company for the year ended 31 December 2008 amounted to approximately RMB239.4 million (year ended 31 December 2007: RMB374.9 million), representing a decrease of approximately 36.1%. However, the unaudited profit attributable to equity holders of the Company for the three months ended 31 December 2008 amounted to approximately RMB73.2 million, representing an increase of approximately 43.8% as compared with that of approximately RMB50.9 million for the three months ended 30 September 2008.

- For the year ended 31 December 2008, the earnings per share amounted to approximately RMB44.49 cents (year ended 31 December 2007: RMB85.01 cents).

- The Directors recommend the payment of a final dividend HKD0.11 per share for the year ended 31 December 2008 (year ended 31 December 2007: RMB0.4 per share).

RESULTS

The board (the "Board") of directors (the "Directors") of NetDragon Websoft Inc. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 together with the comparative figures for the corresponding period in 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	**2008** **RMB'000**	2007 *RMB'000*
Revenue	2	**595,981**	645,214
Cost of revenue		**(68,064)**	(36,863)
Gross profit		**527,917**	608,351
Other revenue and gains		**95,083**	8,321
Selling and marketing expenses		**(103,599)**	(80,844)
Administrative expenses		**(112,673)**	(50,090)
Development costs		**(89,823)**	(37,253)
Other operating expenses		**(54,725)**	(21,404)
Operating profit		**262,180**	427,081
Share of results of an associate		**(276)**	—
Profit before income tax	3	**261,904**	427,081
Income tax expense	4	**(22,635)**	(52,244)
Profit for the year		**239,269**	374,837
Attributable to			
Equity holders of the Company		**239,381**	374,854
Minority interests		**(112)**	(17)
Profit for the year		**239,269**	374,837
Dividends	5	**98,771**	295,162
		RMB cents	*RMB cents*
Earnings per share	6		
- Basic		**44.49**	85.01
- Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**96,160**	61,344
Land use rights		**7,362**	1,174
Deposit paid for acquisition of property, plant and equipment		**7,357**	—
Intangible assets		**10,754**	—
Interest in an associate		**224**	—
Available-for-sale financial asset		**4,000**	4,000
Loan receivables		**6,835**	—
Deferred tax assets		**54**	54
		132,746	66,572
Current assets			
Loan receivables		**440**	—
Trade and other receivables, prepayments and deposits	7	**81,990**	67,295
Financial assets at fair value through profit or loss	8	**311,806**	—
Derivative financial instrument	9	**31,857**	—
Amounts due from related parties		**—**	8,832
Tax recoverable		**108**	581
Term deposits with initial term of over three months		**629,454**	50,000
Cash and cash equivalents		**332,009**	1,651,380
		1,387,664	1,778,088

	Notes	2008 *RMB'000*	2007 *RMB'000*
Current liabilities			
Trade and other payables, accruals and deferred income	10	53,677	45,262
Amount due to a related party		—	76
Income tax payable		12,922	29,940
		66,599	75,278
Net current assets		1,321,065	1,702,810
Total assets less current liabilities/Net assets		1,453,811	1,769,382
EQUITY			
Share capital		39,264	41,219
Reserves		1,414,547	1,728,051
Equity attributable to equity holders of the Company		1,453,811	1,769,270
Minority interests		—	112
Total equity		1,453,811	1,769,382

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Equity attributable to equity holders of the Company													
	Share capital	Share premium	Capital contribution	Capital redemption reserve	Capital reserve	Statutory reserves	Dividend reserve	Treasury share reserve	Employee share-based compensation 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*	*RMB'000*
At 1 January 2007	1,453	16,267	21,755	—	11,596	6,768	—	—	—	(10)	46,749	104,578	129	104,707
Exchange difference arising on translation of overseas operations and net expense recognised directly in equity	—	—	—	—	—	—	—	—	—	(10,797)	—	(10,797)	—	(10,797)
Profit for the year	—	—	—	—	—	—	—	—	—	—	374,854	374,854	(17)	374,837
Total recognised income and expense for the year	—	—	—	—	—	—	—	—	—	(10,797)	374,854	364,057	(17)	364,040
Issue of shares by a subsidiary	—	69,984	(21,755)	—	170	—	—	—	—	—	—	48,399	—	48,399
Issue of shares by the Company	2,053	—	—	—	(1,820)	—	—	—	—	127	—	360	—	360
Dividend declared (note 5)	—	—	—	—	—	—	—	—	—	—	(79,069)	(79,069)	—	(79,069)
Issue of new shares by the Company upon listing	7,046	1,183,554	—	—	—	—	—	—	—	—	—	1,190,600	—	1,190,600
Issue of new shares by the Company upon capitalisation issue	29,481	(29,481)	—	—	—	—	—	—	—	—	—	—	—	—
Issue of new shares by the Company upon exercise of over-allotment option	1,194	200,559	—	—	—	—	—	—	—	—	—	201,753	—	201,753
Shares issue expenses	—	(59,839)	—	—	—	—	—	—	—	—	—	(59,839)	—	(59,839)
Repurchase and cancellation of shares	(8)	(1,561)	—	8	—	—	—	—	—	—	(8)	(1,569)	—	(1,569)
Proposed final dividend (note 5)	—	—	—	—	—	—	216,093	—	—	—	(216,093)	—	—	—
Appropriations	—	—	—	—	—	54,448	—	—	—	—	(54,448)	—	—	—
At 31 December 2007	41,219	1,379,483	—	8	9,946	61,216	216,093	—	—	(10,680)	71,985	1,769,270	112	1,769,382

	Equity attributable to equity holders of the Company													
	Share capital	Share premium	Capital contribution	Capital redemption reserve	Capital reserve	Statutory reserves	Dividend reserve	Treasury share reserve	Employee share-based compensation 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*	*RMB'000*
At 1 January 2008	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 arising on translation of overseas operations and net expense recognised directly in equity	—	—	—	—	—	—	—	—	—	(45,027)	—	(45,027)	—	(45,027)
Profit for the year	—	—	—	—	—	—	—	—	—	—	239,381	239,381	(112)	239,269
Total recognised income and expense for the year	—	—	—	—	—	—	—	—	—	(45,027)	239,381	194,354	(112)	194,242
Interim dividend declared (note 5)	—	—	—	—	—	—	47,496	—	—	—	(47,496)	—	—	—
Dividend paid (note 5)	—	—	—	—	—	—	(263,589)	—	—	—	(9,057)	(272,646)	—	(272,646)
Purchase of treasury shares	—	—	—	—	—	—	—	(14,107)		—	—	(14,107)	—	(14,107)
Recognition of share-based payments	—	—	—	—	—	—	—	—	1,014	—	—	1,014	—	1,014
Vested shares paid to employees	—	—	—	—	—	—	—	1,675	(1,014)	—	(661)	—	—	—
Repurchase and cancellation of shares	(1,955)	(222,119)	—	1,955	—	—	—	—	—	—	(1,955)	(224,074)	—	(224,074)
Proposed final dividend (note 5)	—	—	—	—	—	—	51,275	—	—	—	(51,275)	—	—	—
Appropriations	—	—	—	—	—	36,476	—	—	—	—	(36,476)	—	—	—
At 31 December 2008	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

Notes:

1. **General information, basis of preparation and presentation**

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability. The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is situated at 58 Hot Spring Branch Road, Fuzhou, Fujian, the People's Republic of China, except the Hong Kong Special Administrative Region ("Hong Kong") (the "PRC").

The Company was listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 November 2007 under the stock code of "8288". On 24 June 2008, the Company's listing was successfully transferred to the Main Board (the "Main Board") of the Stock Exchange under a new stock code of "777".

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.

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

The financial statements have been prepared under the historical cost except for financial instruments classified as at fair value through profit or loss and derivative financial instrument which are stated at fair value.

The Group has applied for the first time the following new standards, amendments and interpretations ("the new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2008:

HK(IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 (Amendments)	Reclassification of Financial Assets

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 (Amendment)	Eligible Hedged Items [2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate [1]
HKFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combination [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC) - INT 13	Customer Loyalty Programmes [3]
HK(IFRIC) - INT 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) - INT 16	Hedges of a Net Investment in a Foreign Operation [4]
HK(IFRIC) - INT 17	Distribution of Non-cash Assets to Owners [2]
HK(IFRIC) - INT 18	Transfers of Assets from Customers [5]
Various	Annual Improvements to HKFRS 2008 [6]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 July 2008

[4] Effective for annual periods beginning on or after 1 October 2008

[5] Effective for transfers of assets from customers received on or after 1 July 2009

[6] Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS

The Directors anticipate that all of these pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Among these new standards and interpretations, HKAS 1 (Revised) Presentation of Financial Statements is expected to materially change the presentation of the Group's financial statements.

The amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement followed by a statement of other comprehensive income). The management is in the process of making an assessment of what the impact of this amendment is expected to be in the period of initial application. So far it has concluded that the adoption of this amendment does not affect the financial position and results of the Group, but will give rise to additional disclosures.

In addition, HKFRS 8 Operating Segments may result in new or amended disclosures. The Directors is in the process of identifying reportable operating segments as defined in HKFRS 8.

The Directors are currently assessing the impact of the other new or amended HKFRSs upon initial application. So far, the Directors have preliminary concluded that the initial application of these HKFRS is unlikely to have a significant impact on the Group's result and financial position.

2. **Segment information**

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

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

	2008	2007
	RMB'000	*RMB'000*
PRC	**446,350**	524,652
USA	**135,520**	117,030
Unallocated	**14,111**	3,532
	595,981	645,214

The carrying amount of segment assets and capital expenditure, which represent additions to property, plant and equipment and intangible assets, analysed by geographical markets is presented below:

	Segment assets	
	2008	2007
	RMB'000	*RMB'000*
PRC	**169,952**	116,270
USA	**14,577**	7,983
Hong Kong	**19,094**	5,559
Unallocated	**1,316,787**	1,714,848
	1,520,410	1,844,660

	Capital expenditure	
	2008	2007
	RMB'000	*RMB'000*
PRC	**68,308**	47,440
Hong Kong	**14,507**	—
USA	**—**	64
	82,815	47,504

3. Profit before income tax

The Group's profit before income tax is arrived at after charging/(crediting) the following items:

	2008	2007
	RMB'000	*RMB'000*
Auditors' remuneration	**1,358**	603
Amortisation of intangible asset	**3,378**	—
Amortisation of land use rights	**103**	5
Depreciation of property, plant and equipment (notes (i) and (ii))	**33,315**	9,341
Fair value gain on derivative financial instrument	**(32,231)**	—
Government grants	**(24,608)**	(735)
Interest income	**(29,148)**	(7,008)
Operating lease charges on:		
- land and buildings	**2,845**	2,262
- computer equipment	**38,215**	17,507
Development costs (note (ii))	**89,823**	37,253
Staff costs	**141,863**	68,935
Net foreign exchange losses	**13,111**	3,710
Loss on disposal of property, plant and equipment	**175**	20
Impairment on receivables	**1,660**	541

Notes:

(i) Depreciation of property, plant and equipment of RMB15,628,000 (2007: RMB4,127,000) has been included in cost of revenue, RMB452,000 (2007: RMB308,000) in selling and marketing expenses and RMB15,655,000 (2007: RMB4,806,000) in administrative expenses.

(ii) Development costs mainly comprise depreciation of property, plant and equipment of RMB1,580,000 (2007: RMB100,000), and staff costs of RMB81,093,000 (2007: RMB36,268,000), which are also included in the total amounts disclosed separately above for each of these types of expenses.

The Group did not capitalise any development costs for the year ended 31 December 2008. (2007: Nil)

4. **Income tax expense**

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

	2008 *RMB'000*	2007 *RMB'000*
Current tax		
- PRC (note (i))		
Tax for the year	**31,859**	51,786
Over-provision in prior years	**(9,666)**	—
- USA (note (ii))		
Tax for the year	**442**	601
Over-provision in prior years	**—**	(290)
	22,635	52,097
Deferred income tax	**—**	147
Income tax expense	**22,635**	52,244

Notes:

(i) PRC enterprise income tax ("EIT") is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Fujian TQ Digital Inc ("TQ Digital") 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 and is thereby subject to EIT tax rate of 15% for 2008.

Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") continued to be recognised as a hi-tech enterprise located in high technology industrial development zone on 9 November

2004. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) as mentioned in the previous paragraph, NetDragon (Fujian) was entitled to paying EIT at the reduced tax rate of 15% for 2006. Pursuant to a notice issued by a government authority (福建省科學技術廳) on 16 August 2007, NetDragon (Fujian) continued to be recognised as a hi-tech enterprise and is thereby subject to EIT tax rate of 15% for 2007.

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 NetDragon (Fujian) did not apply to be a hi-tech enterprise in the current year, the EIT tax rate applicable to NetDragon (Fujian) for 2008 was 25% accordingly.

Shanghai Tiankun Digital Technology Ltd. ("NetDragon (Shanghai)") is subject to EIT tax rate of 25% (2007: 33%).

Fujian TQ Online Interactive Inc., a newly incorporated PRC subsidiary, is also subject to EIT tax rate of 25%.

(ii) The USA income tax rates applicable to the Group are 34% (2007: 34%) for federal tax and 8.84% (2007: 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 during the year (2007: Nil). Provision for Hong Kong profits tax is not made as the Group has not derived any assessable profits in Hong Kong during the year (2007: Nil).

(iv) There was no share of tax attributable to associate included in "Share of results of an associate" in the consolidated income statement (2007: Nil).

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

	2008 ***RMB'000***	2007 *RMB'000*
Profit before income tax	**261,904**	427,081
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**26,821**	65,721
Share of results of an associate	**69**	—
Tax exemptions	**(26,505)**	(30,917)
Tax effect of non-taxable income	**(10,344)**	(2,229)
Tax effect of non-deductible expenses	**42,273**	19,991
Over-provision in prior years	**(9,666)**	(290)
Others	**(13)**	(32)
Income tax expense	**22,635**	52,244

5. **Dividends**

	2008	2007
	RMB'000	*RMB'000*
Special dividends	**—**	79,069
Interim dividend declared and paid of HKD0.1 per share (2007: Nil)	**47,496**	—
Proposed final dividend of HKD0.11 per share (2007: RMB 0.4 per share)	**51,275**	216,093
	98,771	295,162

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and therefore, has not been recognised as a liability at the balance sheet date.

The interim dividend of RMB47,496,000 for the year had been approved by the directors at the board meeting and was subsequently paid on 16 September 2008.

An amount of RMB9,057,000 directly dealt with in the retained profits of the Group and Company represents an exchange difference arising from recognising the final dividend for the year ended 31 December 2007 as a liability after the approval by the shareholders in the annual general meeting on 28 April 2008.

The final dividend of RMB216,093,000 for the year ended 31 December 2007 was paid on 2 May 2008.

6. **Earnings per share**

The calculation of earnings per share attributable to the equity holders of the Company is calculated based on consolidated profit attributable to the equity holders of the Company for the year of RMB239,381,000 (2007: RMB374,854,000) and on the weighted average number of 538,082,015 (2007: 440,953,947) in issue, after adjusting the effect of treasury shares held by the Company and contingently issuable shares arising from the share award scheme.

No diluted earnings per share has been presented as the award shares of the Company outstanding as at the year ended 31 December 2008 were anti-dilutive to the Group's earning per share.

Diluted earning per share for the year ended 31 December 2007 has not been presented as there were no dilutive potential shares.

7. **Trade and other receivables, prepayments and deposits**

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**9,500**	26,940
Other receivables	**24,624**	6,140
Prepayments and deposits	**47,866**	34,215
	81,990	67,295

The ageing analysis of trade receivables at the balance sheet date is as follows:

	2008	2007
	RMB'000	*RMB'000*
Outstanding balances with ages:		
- 30 days or below	**6,976**	22,881
- 31 - 60 days	**2,197**	1,983
- 61 - 90 days	**56**	1,876
- 91 - 180 days	**271**	—
- 181 - 365 days	**—**	—
- Over 365 days	**—**	200
	9,500	26,940

8. **Financial assets at fair value through profit or loss**

	2008	2007
	RMB'000	*RMB'000*
Debt instruments - unlisted	**311,806**	—

During the year, the Group invested in two debt instruments, USD30,000,000 in 1-year USD denominated consecutive digital note ("USD Note") and AUD21,000,000 in 1-year AUD denominated credit-linked note ("AUD Note"). The principal of the USD Note is 100% recoverable at maturity. The return of the USD Note is calculated based on the exchange rates of USD against RMB on monthly observation dates as specified in the term sheet of the USD Note, and is receivable at maturity date. The principal of the AUD Note is 100% recoverable at maturity, with the redemption and extension clauses as specified in the term sheet of the AUD Note. The return of the AUD Note is 8.3% per annum, and is receivable at maturity date or redemption date or extension date, as appropriate. Both the USD Note and the AUD Note have been designated as financial assets at fair value through profit or loss by the management in their initial recognition.

As at 31 December 2008, the carrying amount of USD Note amounted to USD29,974,000 (equivalents to RMB204,877,000). The fair value of the USD Note has been determined by Asset Appraisal Limited, a firm of professional valuers using market approach (such as forward rates from reputable financial institution) and interpolation techniques on the forward rates as at 31 December 2008. The valuation has been performed with the following assumptions: (i) all the monthly returns were estimated using the forward rate as at 31 December 2008; and (ii) the Group held the USD Note to maturity.

As at 31 December 2008, the carrying amount of the AUD Note of AUD22,407,000 (equivalents to RMB106,929,000) The fair value of the AUD Note has been determined by Asset Appraisal Limited, the professional valuers using discounted cash flow method. The valuation has been performed with the following assumption: The risk of counterparties defaulting has been amplified during the 2008 financial crisis, systemative risk plays a significant role which threatens an entire market. The valuation does not take into account of the future systematic risk in the course of valuation.

The debt instruments are not designated as hedging instruments.

During the year, the net decrease in the fair value of the USD Note of approximately RMB1,551,000 was recognised and recorded in "Other operating expenses" in the consolidated income statement. The decrease in fair value for the year and cumulated changes of approximately RMB1,551,000 was solely attributable to the changes in market conditions that give rise to market risk.

During the year, the net decrease in the fair value of the AUD Note of approximately RMB33,666,000 was recognised and recorded in "Other operating expenses" in the consolidated income statement. The decrease in fair value for the year and cumulated changes of approximately RMB33,666,000 was solely attributable to the changes in market conditions that give rise to market risk. The interest income accrued in the AUD Note of approximately RMB4,832,000 was recognised and recorded in "Other revenue and gains" in the consolidated income statement.

9. **Derivative financial instrument**

	2008	2007
	RMB'000	*RMB'000*
Foreign currency forward contract		
- unlisted	**31,857**	—

During the year, the Group entered into a 1-year foreign currency forward contract in respect of USD against AUD. The major terms of the foreign currency forward contract at the balance sheet date are as follows:

Notional amount	**Date of maturity**	**Forward contract rate**
One contract to buy USD in the amount equivalents to AUD21,000,000	19 June 2009	AUD1 : USD0.9188

The foreign currency forward contract is not designated as hedging instrument and was measured at fair value at the balance sheet date. Its fair value is determined by reference to the valuation conducted by Asset Appraisal Limited, the professional valuers.

During the year, the net increase in the fair value of the foreign currency forward contract of approximately RMB32,231,000 was recognised and recorded in "Other revenue and gains" in the consolidated income statement. The increase in fair value for the year and cumulated changes of RMB32,231,000 was solely attributable to the changes in market conditions that give rise to market risk.

10. Trade and other payables, accruals and deferred income

	2008	2007
	RMB'000	*RMB'000*
Trade payables	**219**	500
Accrued staff costs	**5,417**	5,789
Value added tax payables and other tax payables	**5,290**	5,333
Other payables and accrued charges	**25,913**	15,288
Deferred income	**16,838**	18,352
	53,677	45,262

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

	2008	2007
	RMB'000	*RMB'000*
Outstanding balances with ages:		
- Within 90 days	**185**	500
- 91 - 180 days	**24**	—
- 181 - 365 days	**10**	—
- Over 365 days	**—**	—
	219	500

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Industry review

China is today one of the most well-positioned and fastest growing Internet economies in the world with a net user population that reached 253 million in 2008, according to the China Internet Network Information Centre ("CNNIC"). Despite this remarkable size, the Internet penetration rate in China stood at only 22.6%* by the end of 2008, compared to 73%* in Korea and 74%* in Japan. This suggests that the Internet's potential in China still has ample room for growth, given a strong user base as well as increasing utilisation rates. Ultimately the online gaming industry will emerge as one of the major beneficiaries.

Due to the vast potential of the online gaming industry in China, market competition remained intense in 2008. Dominated by a number of established industry leaders, China's online gaming sector continued to fragment with a significant number of game developers and operators entering the market. While this trend is expected to continue, industry consolidation is likely to occur over the longer term, which will favor those industry leaders that are well-managed and financially sufficient to gain market share and enlarge the scale of their business and user base.

Online security is an industry-wide issue concerning online game operators in China. During the past year, illegal or private server activities re-emerged in the online game sector. Private servers are vehicles by which unauthorized individuals illegally operate and offer online games to the general public at a discounted price. This kind of activity not only constitutes infringement of intellectual property rights, but also cripples the operations of the original game developers, which upset the continuity of their online games. A host of counter measures have been introduced by online game developers along with the Chinese government's support to eliminate the problem, which has resulted in great success.

**Source:* China Internet Network Information Centre

(2) **Financial review**

Revenue

Our total revenue for the year ended 31 December 2008 was approximately RMB596.0 million, representing a decrease of approximately 7.6% as compared to approximately RMB645.2 million for the year ended 31 December 2007. However, the revenue of the Group for the three months ended 31 December 2008 amounted to approximately RMB136.5 million, maintaining at a steady level when compared with the three months ended 30 September 2008 of approximately RMB136.6 million, but representing a decrease of approximately 28.9% as compared with that of approximately RMB191.9 million for the same period in last year.

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 December 2008	**30 September 2008**	**30 June 2008**	**31 March 2008**	**31 December 2007**
PCU	591,000	544,000	697,000	669,000	787,000
ACU	317,000	311,000	355,000	313,000	407,000

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

The PCU for online games was approximately 591,000 for the three months ended 31 December 2008, representing an increase of approximately 8.6% from the three months ended 30 September 2008 but representing a decrease of approximately 24.9% from the three months ended 31 December 2007.

We also recorded an ACU for online games of approximately 317,000 for the three months ended 31 December 2008, it also represented a decrease of approximately 22.1% from the three months ended 31 December 2007 but representing an increase of approximately 1.9% from the three months ended 30 September 2008. The increase of concurrent users for the three months ended 31 December 2008 was mainly a reflection of an increase in Eudemons Online users, due in part to our successful fight against private server activities in coordination with Fujian and Fuzhou governments during the fourth quarter of 2008.

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

	For the period from 1 January 2007 to 30 June 2007		For the period from 1 July 2007 to 31 December 2007		**For the period from 1 January 2008 to 30 June 2008**		**For the period from 1 July 008 to 31 December 2008**	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	***RMB'000***	***% of total revenue***	***RMB'000***	***% of total revenue***
The PRC	208,747	79.8	315,905	82.4	**251,719**	**78.0**	**194,631**	**71.3**
Overseas	53,002	20.2	67,560	17.6	**71,178**	**22.0**	**78,453**	**28.7**
Total	261,749	100.0	383,465	100.0	**322,897**	**100.0**	**273,084**	**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 year ended 31 December 2008 was approximately RMB446.4 million, representing a decrease of approximately 14.9% as compared to approximately RMB524.6 million for the corresponding period in last year. However, the revenue derived from overseas markets for the year ended 31 December 2008 amounted to approximately RMB149.6 million, representing an increase of approximately 24.1% as compared with that of approximately RMB120.6 million for the same period in last year. The increase in revenue derived from overseas markets was mainly due to (i) the launch of the different languages of the online games of the Group, where we have launched the traditional Chinese version for Eudemons Online and Zero Online in Hong Kong, Taiwan and Macau (in association with our business partners in the respective markets) in the second half of 2008; and (ii) the launch of Indonesian version for Eudemons Online in Indonesia with the cooperation of business partners; and (iii) the overall increase of revenue derived from English version of Conquer Online operated by the Group itself.

Gross profit

Our gross profit was approximately RMB527.9 million with a gross profit margin of approximately 88.6% respectively for the year end 31 December 2008 as compared with approximately RMB608.4 million and 94.3% respectively for the year ended 31 December 2007. The decrease in gross profit and the percentage of gross profit margin were mainly due to the decrease in the player usage as demonstrated by the decrease in revenue derived for the year ended 31 December 2008 as compared with the year ended 31 December 2007 and the increase in leasing and expenses and depreciation of servers as a result of the increase number of servers owned by us as compared with the year ended 31 December 2007.

Other revenue and gains

Our other revenue and gains primarily consist of advertising income, government grants, interest income, fair value gain on financial instruments and other revenue and gains.

Other revenue and gains for the year ended 31 December 2008 increased by approximately 1,042.7% to approximately RMB95.1 million as compared with the year ended 31 December 2007. The increase in other revenue and gains was mainly attributable to (i) the net increase in the fair value of the foreign currency forward contract of approximately RMB32.2 million was recognised; (ii) the increase in interest income earned from net proceeds of the international placing in connection with the listing of the Company's shares on the GEM of the Stock Exchange; (iii) the increase in the contribution of advertising income; and (iv) the increase in the government grants of approximately RMB24.6 million. The government grants were mainly granted to NetDragon (Fujian) and TQ Digital by 福州技術經濟局財政局 and 福建省財政廳 amounting to RMB19.4 million and RMB2 million respectively.

Selling and marketing expenses

Our selling and marketing expenses primarily consist of staff costs, advertising and promotion expenses and other selling and marketing expenses.

Selling and marketing expenses for the year ended 31 December 2008 increased by approximately 28.1% to approximately RMB103.6 million as compared with the year ended 31 December 2007. 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 and Heroes of Might and Magic Online. In accordance with the terms of agreement with China Film Group Corporation and Ubisoft Entertainment SA ("Ubisoft"), respectively, the Group has to provide marketing support for promoting the collaboration of Tou Ming Zhuang Online and Heroes of Might and Magic Online. Besides, the Group has continued to increase the marketing and promotional activities of its self-developed game Way of the Five in late 2008, which has been officially launched in March 2009. In addition, the Group also actively participates in the game industry events and / or exhibitions including the China Digital Entertainment Expo and Conference ("ChinaJoy") and The 6th China International Web Culture Expo during the year of 2008.

Further, the increase in the amount of selling and marketing expenses was also caused by the increase in staff costs relating to the use of various defensive and counter-attack measures in an attempt to resolve and reduce the negative impact to our online games franchise caused by the commonly known industry problem, "private servers". We have recruited experienced staff to keep checking, preventing and attacking the private servers activities. After incurring the above expenditures, the Company has started to obtain a better results in the revenue contribution from its flagship online game, Eudemons Online. The proportion of selling and marketing expenses to the total revenue for each of the year ended 31 December 2007 and 2008 was approximately 12.5% and 17.4%, respectively.

Administrative expenses

Our administrative expenses primarily consist of staff costs, depreciation, travel and entertainment expenses and other administrative expenses.

Administrative expenses increased by approximately 124.9% to approximately RMB112.7 million for the year ended 31 December 2008 as compared with the year ended 31 December 2007, as a result of the continuous expansions of our online game business. The increase of administrative expenses for the year ended 31 Decemer 2008 was mainly attributable to (i) 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"); (ii) our overall expansion of the Group, including launching multi-language versions of online games during the year under review; and (iii) the exchange loss resulted from the appreciation of Reminbi ("RMB") against US dollars ("USD") and Hong Kong dollars ("HKD") for the year ended 31 December 2008. The proportion of administrative expenses to total revenue for the each of the year ended 31 December 2007 and 2008 was approximately 7.8% and 18.9%, respectively.

Development costs

Our development costs primarily consist of staff cost and other development-related expenses.

Development costs increased by approximately 141.1% to approximately RMB89.8 million for the year ended 31 December 2008 as compared with the year ended 31 December 2007. 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 difference business partners mentioned in the above administrative expenses and the increase in compensation for our employees. The number of staff in our development team increased from 412 as at 31 December 2007 to 1,465 as at 31 December 2008. We also increased the compensation in order to provide a competitive and attractive increment in the basic salary. 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

Our other operating expenses primarily consist of professional fee related to the listing, business tax related to intercompany transactions which the business tax for online game revenue is deducted from the online revenue directly, fair value loss on financial assets and other operating expenses.

Other operating expenses for the year ended 31 December 2008 increased by approximately 155.7% to approximately RMB54.7 million as compared with the year ended 31 December 2007. The increase in other operating expenses was attributable by the offsetting of (i) the net increase in the fair value of the USD Note and AUD Note of approximately RMB35.2 million. The increase in the fair value of the USD Note and AUD Note for the year and cumulated changes of RMB35.2 million was solely attributable to the changes in market conditions that give rise to market risk; 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 during the year of 2008.

Income tax expenses

The profit before tax for the year ended 31 December 2008 dropped by approximately 38.7% as compared with the year ended 31 December 2007. We also recorded a decrease in the income tax expenses for the year ended 31 December 2008 of approximately 56.7% to approximately RMB22.6 million as compared with the year ended 31 December 2007. The decrease in income tax expenses was mainly due to (i) the tax refund of approximately RMB9.7 million approved by the 福建省福州市經濟技術開發區地方稅務局(「開發區地方稅務局」) in September 2008. The tax refund was related to the overpayment of income tax of NetDragon (Fujian) for the year ended 31 December 2007. The overpayment of income tax was related to an expense allowed by 開發區地方稅務局 for deduction recently and (ii) based on 中華人民共和國國務院(企業所得稅法實施條例) TQ Digital is entitled to the tax benefit on the technology transfer income followed by 50% tax reduction for the year 2008.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company for the year end 31 December 2008 was approximately RMB239.4 million, representing a decrease of approximately RMB135.5 million as compared with approximately RMB374.9 million for the year ended 31 December 2007. However, the unaudited profit attributable to equity holders of the Company for the three months ended 31 December 2008 amounted to approximately RMB73.2 million, representing an increase of approximately 43.8% as compared with that of approximately RMB50.9 million for the three months ended 30 September 2008.

Liquidity and capital resources

For the year ended 31 December 2008, we had term deposits with initial term of over three months, cash on hand and at bank deposits of approximately RMB960.1 million as compared with approximately RMB1,700.1 million for the year ended 31 December 2007.

For the year ended 31 December 2008, the Group had cash deposited with an online payment service providers of approximately RMB1.4 million as compared with approximately RMB1.3 million for the year ended 31 December 2007.

For the year ended 31 December 2008, the Group had net current assets of approximately RMB1,321.1 million as compared with approximately RMB1,702.8 million for the year ended 31 December 2007.

Foreign currency risks

Our present operations are carried out in the PRC and the United States of America ("USA"). All our receipts and payments in relation to the operations are principally denominated in RMB and USD. In this respect, our Directors consider there is no significant currency mismatch in our operational cashflows and we are not exposed to any significant foreign currency exchange risk in our operation.

Most of the subsidiaries' functional currencies are RMB since majority of the revenues of the Group are derived from the operations in the PRC. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulation of foreign exchange control promulgated by the PRC Government. The Group also has operations in Hong Kong and USA and the business transactions conducted there during the year were mainly denominated and settled in HKD and USD, which are the functional currencies of the relevant subsidiaries. The exposure in exchange rate risks mainly arises from fluctuations in foreign currencies against the functional currency of the relevant Group entities. The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arises.

Credit Risks

Credit risk arises from term deposits with initial term of over three months, cash and cash equivalents, trade receivables, other receivables, loans receivable, amounts due from related parties, financial assets at fair value through profit or loss (please refer to note 8) and derivative financial instrument (please refer to note 9). As at 31 December 2008, the carrying amount of the above financial assets represents the Group's maximum exposure on credit risk.

Credit risk on trade receivables, other receivables and amounts due from related parties is minimised as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

Credit risk on term deposits with initial term of over three months, cash and cash equivalents, financial assets at fair value through profit or loss and derivative financial instrument are mitigated as counterparties are banks or financial institutions with high credit ratings or reputable online payment service providers. With reference to the current economic situation, the Group will closely monitor the credit ratings for banks or financial institutions relating to the financial assets owned by the Group. In order to minimise the credit risk of the Group, we have diversified the financial assets in different banks or financial institutions and make sure the Company is in a healthy financial position which can provide adequate sources of funding as the Group's working capital.

Staff information

As at 31 December 2008, we had a total of 2,426 employees (2007: 788), 1,465 of which are game developers, representing 60.4% of the total number of staff.

(3) **Business Review**

As a 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 games

During the year under review, the Group sought to expand its product offerings by continuing to develop additional online games internally.

Heroes of Might and Magic Online

Launched in the second quarter of 2008, Heroes of Might and Magic Online is a 2.5D MMORPG. It was developed based on the well-known PC game Heroes of Might and Magic, licensed to the Company by Ubisoft. The game is targeted on the existing "Heroes of Might and Magic" PC players worldwide who tend to prefer strategy games. Leveraging this increasing market attention and popularity among online game players, Heroes of Might and Magic Online is expected to become another flagship title for the Group in the years to come.

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 has also 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 year under review, the Group launched upgrades for Conquer Online, Eudemons Online, Zero Online and Tou Ming Zhuang Online 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. New Dynasty ("An Ren Wei Ji") was one of the major expansion packs launched at the end of last year for Conquer Online. Chinese and English language versions of the New Dynasty for Conquer Online were also launched in November and December 2008 respectively.

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. As a pioneer in the development of online gaming products, the Group has successfully entered markets where six different languages are spoken, including English, French and Spanish. The Group launched a traditional Chinese version of Eudemons Online and Zero Online in Hong Kong, Taiwan and Macau through collaborations with local business partners. Eudemons Online has also been translated into English and Portuguese versions as well, which had been launched in both the European and American markets. Zero Online was launched in Hong Kong and Macau market in the traditional Chinese version and the English version of this game began commercial operations in USA in 2007. We have also began the operations of Eudemons Online and Zero Online in Thailand in Thai Version in 2008.

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 early 2009. It has become the most anticipated online game among players who are expecting a totally unique gaming experience.

During the year under review, 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 December 2008, the Group had increased its overall staff headcount to a total of 2,426, of which 1,465 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 top developer and operator of online games. The Group's game development team blends the finest in programming, design and graphics expertise. This type of development will support our frequent game upgrades and updates to accommodate the latest player preferences and satisfy emerging market trends.

(4) **Prospects and outlook**

Looking into 2009, 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

Tian Yuan is a 2.5D MMORPG with legendary ancient oriental settings. This game features a mythical world full of historical flavour, combining the most fashionable online gaming concept with glamorous Chinese fairy tales. This game is expected to be launched in first half of 2009.

Disney Fantasy Online

The Group signed a content development and distribution agreement with Disney Online, Inc. in January 2008. Based upon this agreement, the Group expects to develop a 2.5D MMORPG, which will feature certain Disney characters and intellectual property rights — such as a pre-determined selection of characters from amongst the Disney Pantheon of animated characters as well as the thematic worlds in which such characters were set — as part of the game's non-player characters and virtual environments. The game is expected to be officially launched in early 2009.

Dungeon Keeper Online

The Group entered into licensing agreement with EA to develop the Group's first 3D MMORPG based on EA's Dungeon Keeper™ line of games. The Group also obtained the exclusive license to operate and distribute Dungeon Keeper Online throughout the Greater China region, including Hong Kong, Taiwan and Macau. Dungeon Keeper™ is a PC strategy game in which the players attempts to build and manage a dungeon or lair while protecting it from computer-controlled 'hero' characters intent on stealing the users' accumulated treasures and killing various monsters. The game was released by EA in 1997 which has gained positive market reaction and accumulated a sizable of player base. Dungeon Keeper Online is expected to be officially launched in 2010.

CJ7 Online

The Company had signed a content development and distribution agreement with Shanghai Baihai Information Technology Co., Ltd in developing and distributing a new online game namely CJ7 Online. CJ7 Online is being developed based on the theme, contents and characters of the same named movie "CJ7" and the Group has the right to distribute the game in the PRC.

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.

Final dividend

The Directors now recommend the payment of a final dividend of HKD0.11 per share. The final dividend, if approved by the shareholders of the forthcoming annual general meeting, is expected to be payable on or around 22 April 2009 to shareholders whose names appear on the register of members of the Company on 16 April 2009, amounting to approximately HKD58,142,795.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 17 April 2009 to Tuesday, 21 April 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and the right to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Investor Services Limited at 26th Floor Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30p.m. on Thursday, 16 April 2009.

Annual general meeting

An annual general meeting of the Company will be held on 21 April 2009, notice of which will be published and despatched to the shareholders as soon as practicable in accordance with the Company' articles of association and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

The listing of the Company was successfully transferred to the Main Board of the Stock Exchange on 24 June 2008. As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chaper 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 recorded in the register required to be 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") set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are 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%

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 (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% 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%, 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% 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% 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 and direct shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

4. Chen Hongzhan is interested in 99% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.63% 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 December 2008, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to 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

The listing of the Company was transferred to the Main Board of the Stock Exchange on 24 June 2008. So far as is known to the Directors, as at 31 December 2008, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group are as follows:

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 Holdings 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% 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% 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% 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 recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2008.

SHARE OPTION SCHEME

Pursuant to the resolution of all the shareholders of the Company dated 12 June 2008, the Company adopted a share option scheme (the "Main Board Share Option Scheme") to replace the then existing share option scheme. During the year under review, no option had been granted under the Main Board Share Option Scheme.

SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme") on 2 September 2008 (the "Adoption Date") in which selected employees (the "Selected Employee(s)") of the Group are entitled to participate. The purpose of the scheme is to recognise the contributions by certain employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. 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 further award of shares which would result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 10% of the issued Share capital of the Company from time to time. The maximum number of shares which may be awarded to a Selected Employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

Pursuant to the rules of the Share Award Scheme, the Group has entered into a trust deed with Bank of Communications Trustee Limited (the "Trustee") in respect of the appointment of the Trustee for the purpose of the administration of the Share Award Scheme and holding the awarded sharesbefore they are vested.

As at 31 December 2008, the Board awarded an aggregate amount of approximately HKD16,094,000 for the purchase of shares to a number of Selected Employees. For the year ended 31 December 2008, the Trustee purchased 3,174,000 shares and the total payout, including the related transaction costs, amounted to approximately HKD16,100,000. The shares so purchased have been allocated and awarded to the Selected Employees as set out below according to the rules of the Share Award Scheme.

Reference Date	Name of Selected Employee	Awarded sum (HKD)	Number of shares purchased	Number of shares Vested in 2008	Vesting Date	Transfer Date
25.09.2008	Chao Guowei, Charles	999,000.00	197,019	49,255	06.11.2008	15.12.2008
25.09.2008	Chen Hongzhan	999,000.00	197,019	—	—	—
25.09.2008	Lee Kwan Hung	999,000.00	197,019	49,255	06.11.2008	15.12.2008
25.09.2008	Liu Dejian	999,000.00	197,019	—	—	—
25.09.2008	Liu Luyuan	999,000.00	197,019	—	—	—
25.09.2008	Liu Sai Keung, Thomas	999,000.00	197,019	49,255	06.11.2008	15.12.2008
25.09.2008	Rhee Kwanwoo, James	3,030,000.00	597,566	149,392	06.11.2008	15.12.2008
25.09.2008	Tang Zhao Xi	2,020,000.00	398,377	—	—	—
25.09.2008	Wu Chak Man	2,020,000.00	398,377	79,675	06.11.2008	15.12.2008
25.09.2008	Wu Jialiang	3,030,000.00	597,566	—	—	—

Subject to the receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the Selected Employees within the period stipulated in the vesting notice issued by the Trustee to the Selected Employees; and (ii) a confirmation from the Company that all vesting conditions having been fulfilled, the awarded shares will be transferred to the Selected Employees at nil consideration upon vesting . As at 31 December 2008, details of the awarded shares under the Share Award Scheme were as follows:

		Number of shares					
Transfer Date	**Average price per share (HKD) note**	**As at 1 January 2008**	**Awarded during the year of 2008**	**Vested during the year**	**Lapsed during the year**	**As at 31 December 2008**	**Vesting Period**
15.12.2008	5.07	—	1,587,000	376,832	—	1,210,168	06.11.2008-06.11.2012

Note: The shares were purchased by the Trustee of the Share Award Scheme at an average price of HKD5.07 per share.

As at 31 December 2008, details of the shares awarded to the senior management and independent non-executive Directors under the Share Award Scheme are as follows:

Name of Selected Employee	**Position**	**Awarded Shares**	**Vesting date**
Chao Guowei, Charles	Independent Non-Executive Director	49,255	6 Nov 2008
Lee Kwan Hung	Independent Non-Executive Director	49,255	6 Nov 2008
Liu Sai Keung, Thomas	Independent Non-Executive Director	49,255	6 Nov 2008
Rhee Kwanwoo, James	Vice President, Corporate Development	149,392	6 Nov 2008
Wu Chak Man	Chief Financial Officer	79,675	6 Nov 2008

These shares were vested to the Selected Employees in recognition of their respective services and contribution to the Group during the year of 2008.

COMPETITION AND CONFLICT OF INTEREST

Save as disclosed in the listing document of the Company dated 27 May 2008, none of the Directors 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 31 December 2008 and as at the date of this announcement.

COMPLIANCE WITH THE CG CODE

Throughout the year under review, the Company has complied with the principles set out in the Code of Corporate Governance Practice ("CG Code Provisions") in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Company established the audit committee on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision and has held four meetings during 2008. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

The audit committee reviews the quarterly, interim and annual financial results of the Company. In addition, the audit committee also reviews and approves the pricing policy for the continued connected transactions with Fuzhou Tianliang.

Our audit committee comprises three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas. Chao Guowei, Charles is the chairman of the audit committee.

The terms of reference of the audit committee are posted on the Company's website.

The Company's audited financial statement for the year ended 31 December 2008 have been reviewed by the audit committee. The audit committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, the Company repurchased a total of 27,520,500 shares on the Stock Exchange at an aggregate consideration of HKD 246,077,531.66 before expenses. Details of the share repurchase are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HKD	*HKD*	*HKD*
January 2008	4,159,500	13.50	12.40	54,823,486.66
February 2008	11,699,000	13.00	11.04	138,561,450.00
September 2008	9,370,500	5.42	3.97	46,907,500.00
November 2008	1,995,000	2.63	2.33	4,988,660.00
December 2008	296,500	2.75	2.54	796,435.00

The repurchased shares were cancelled on delivery of the share certificates during the year except 296,500 shares were cancelled on 5 January 2009. The nominal value of the cancelled shares was transferred to the capital redemption reserve and the relevant aggregate consideration was paid out from the Company's retained profits.

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

Appreciation

The Board would like to take this opportunity to express our sincere gratitude to all of our employees for their efforts, dedication and commitment throughout the year. The Board would also like to extend our heartfelt thanks to our shareholders and business partners for their continuous support and trust in the Group.

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

Hong Kong, 12 March 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.