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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009

FINANCIAL HIGHLIGHTS

- The unaudited consolidated revenue of the Group for the six months ended 30 June 2009 amounted to approximately RMB336.8 million (six months ended 30 June 2008: approximately RMB322.9 million), representing an increase of approximately 4.3% as compared with the same period last year.
- Profit attributable to owners of the Company for the six months ended 30 June 2009 amounted to approximately RMB66.4 million (six months ended 30 June 2008: approximately RMB115.3 million), representing a decrease of approximately 42.4% as compared with last corresponding period.
- For the six months ended 30 June 2009, the earnings per share amounted to approximately RMB12.63 cents (six months ended 30 June 2008: approximately RMB21.21 cents).
- The Directors recommend the payment of an interim dividend of HKD0.082 per share for the six months ended 30 June 2009 (six months ended 30 June 2008: HKD0.1 per share).

RESULTS

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 together with the comparative figures in 2008 as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
Revenue	5	336,769	322,897
Cost of revenue		(40,806)	(32,401)
Gross profit		295,963	290,496
Other revenue and gains	5	29,818	15,781
Selling and marketing expenses		(67,195)	(44,240)
Administrative expenses		(80,518)	(62,313)
Development costs		(87,769)	(35,630)
Other operating expenses		(15,591)	(19,295)
Share of losses of associates		(724)	—
Profit before income tax	6	73,984	144,799
Income tax expense	7	(7,592)	(29,606)
Profit for the period		66,392	115,193
Profit for the period attributable to:			
Owners of the Company		66,392	115,305
Non-controlling interests		—	(112)
		66,392	115,193
Dividends	8	38,208	47,496
		RMB cents	RMB cents
Earnings per share	9		
– Basic		12.63	21.21
– Diluted		12.62	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	66,392	115,193
Other comprehensive loss		
Exchange loss on translation of financial statements of foreign operations	<u>(198)</u>	<u>(45,801)</u>
Other comprehensive loss for the period, net of tax	<u>(198)</u>	<u>(45,801)</u>
Total comprehensive income for the period	<u>66,194</u>	<u>69,392</u>
Total comprehensive income attributable to:		
Owners of the Company	66,194	69,504
Non-controlling interests	<u>—</u>	<u>(112)</u>
	<u>66,194</u>	<u>69,392</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

		At 30 June 2009 (Unaudited) RMB'000	At 31 December 2008 (Audited) RMB'000
	Note		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		108,981	96,160
Land use rights		13,178	7,362
Deposit paid for acquisition of property, plant and equipment		—	7,357
Intangible assets		11,087	10,754
Interests in associates		—	224
Available-for-sale financial asset		4,000	4,000
Loan receivables		6,480	6,835
Deferred tax assets		54	54
		<u>143,780</u>	<u>132,746</u>
Current assets			
Loan receivables		551	440
Trade and other receivables, prepayments and deposits	10	77,530	81,990
Financial assets at fair value through profit or loss		—	311,806
Derivative financial instruments		—	31,857
Loans to associates		26,000	—
Tax recoverable		77	108
Term deposits with initial term of over three months		525,087	629,454
Cash and cash equivalents		786,272	332,009
		<u>1,415,517</u>	<u>1,387,664</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

As at 30 June 2009

		At 30 June 2009 (Unaudited) RMB'000	At 31 December 2008 (Audited) RMB'000
	<i>Note</i>		
Current liabilities			
Trade and other payables, accruals and deferred income	11	73,799	53,677
Income tax payable		14,097	12,922
		87,896	66,599
Net current assets		1,327,621	1,321,065
Total assets less current liabilities		1,471,401	1,453,811
Non-current liability			
Deferred tax liability		799	—
Net assets		1,470,602	1,453,811
EQUITY			
Share capital		39,264	39,264
Reserves		1,431,338	1,414,547
Equity attributable to owners of the Company/Total equity		1,470,602	1,453,811

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to owners of the Company												
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Statutory reserves	Dividend reserve	Translation reserve	Treasury share reserve	Employee share-based compensation reserve	Retained profits	Total	Non-controlling 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	41,219	1,379,483	8	9,946	61,216	216,093	(10,680)	—	—	71,985	1,769,270	112	1,769,382
Repurchase and cancellation of shares	(1,137)	(176,588)	1,137	—	—	—	—	—	—	(1,137)	(177,725)	—	(177,725)
Dividend paid	—	—	—	—	—	(216,093)	—	—	—	—	(216,093)	—	(216,093)
Interim dividend declared	—	—	—	—	—	47,496	—	—	—	(47,496)	—	—	—
Transactions with owners	(1,137)	(176,588)	1,137	—	—	(168,597)	—	—	—	(48,633)	(393,818)	—	(393,818)
Profit for the period	—	—	—	—	—	—	—	—	—	115,305	115,305	(112)	115,193
Other comprehensive loss													
– Exchange loss on translation of financial statements of foreign operations	—	—	—	—	—	—	(45,801)	—	—	—	(45,801)	—	(45,801)
Total comprehensive (loss)/income for the period	—	—	—	—	—	—	(45,801)	—	—	115,305	69,504	(112)	69,392
At 30 June 2008 (unaudited)	40,082	1,202,895	1,145	9,946	61,216	47,496	(56,481)	—	—	138,657	1,444,956	—	1,444,956
At 1 January 2009	39,264	1,157,364	1,963	9,946	97,692	51,275	(55,707)	(12,432)	—	164,446	1,453,811	—	1,453,811
Recognition of share-based payments	—	—	—	—	—	—	—	—	1,872	—	1,872	—	1,872
Dividend paid	—	—	—	—	—	(51,275)	—	—	—	—	(51,275)	—	(51,275)
Interim dividend declared	—	—	—	—	—	38,208	—	—	—	(38,208)	—	—	—
Transactions with owners	—	—	—	—	—	(13,067)	—	—	1,872	(38,208)	(49,403)	—	(49,403)
Profit for the period	—	—	—	—	—	—	—	—	—	66,392	66,392	—	66,392
Other comprehensive loss													
– Exchange loss on translation of financial statements of foreign operations	—	—	—	—	—	—	(198)	—	—	—	(198)	—	(198)
Total comprehensive (loss)/income for the period	—	—	—	—	—	—	(198)	—	—	66,392	66,194	—	66,194
At 30 June 2009 (unaudited)	39,264	1,157,364	1,963	9,946	97,692	38,208	(55,905)	(12,432)	1,872	192,630	1,470,602	—	1,470,602

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash generated from operating activities	129,098	154,960
Net cash generated from/(used in) investing activities	376,212	(834,728)
Net cash used in financing activities	(51,275)	(393,818)
Net increase/(decrease) in cash and cash equivalents	454,035	(1,073,586)
Cash and cash equivalents at beginning of the period	332,009	1,651,380
Effect of foreign exchange rate changes	228	(83,557)
Cash and cash equivalents at end of the period	786,272	494,237

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. General information

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability. The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is situated at Unit 306, 3rd Floor, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong.

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. Further details are set out in the announcement of the Company dated 12 June 2008.

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

The Company is an investment holding company. The Group is principally engaged in online game development, including game design, programming and graphics, and online game operation.

2. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2009 (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2008, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) as disclosed in note 3 to the Interim Financial Statements.

The Interim Financial Statements are unaudited, but have been reviewed by Grant Thornton 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 HKICPA.

The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

3. Adoption of new or amended HKFRSs

In the current period, the Group has applied for the first time the following new and revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2009.

- HKAS 1 (Revised 2007) Presentation of financial statements
- HKFRS 8 Operating segments

The adoption of these new and revised HKFRSs has had no material effect on the Interim Financial Statements.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, for example revaluation of property, plant and equipment. HKAS 1 only affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. It has had no impact on the reported results or financial position of the Group. Comparatives have been restated to conform with the revised standard.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information are now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been provided on a basis consistent with the revised segment information.

4. Segment information

On adoption of HKFRS 8 Operating segments, the Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in the internal reporting to the executive directors, which is the online game development and operation and marketing of those online games.

The Directors consider the adoption of HKFRS 8 has not changed the identified operating segment for the Group compared to 2008 annual financial statements.

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the executive directors. The executive directors assess segment profit or loss using a measure of operating profit. The measurement policies the Group uses for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements, except that certain items are not included in arriving at the operating results of the operating segments (expenses relating to share-based payments, share of losses of associates accounted for using the equity method, income tax expense and corporate income and expenses).

Segment assets include all assets with the exception of the interests in associates, available-for-sale financial asset, loan receivables, deferred tax assets, financial assets at fair value through profit or loss, derivative financial instruments, loans to associates and tax recoverable as these assets are managed on a group basis.

The revenue and profit generated by the Group's operating segment are summarised as follows:

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Reportable segment revenue (<i>note</i>)	336,769	322,897
Reportable segment profit	100,517	179,998

Note: All of the segment revenue reported above is from external customers.

The following table presents segment assets of the Group's operating segment:

	Six months ended 30 June		Year ended
	2009	2008	31 December
	(Unaudited)	(Unaudited)	(Audited)
	RMB'000	RMB'000	RMB'000
Reportable segment assets	916,475	984,041	1,127,099

The Group's reportable segment profit can be reconciled to the profit before income tax as presented in the Interim Financial Statements as follows:

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Reportable segment profit	100,517	179,998
Share-based payment expense	(1,872)	—
Depreciation and amortisation	(24,554)	(16,136)
Unallocated other income	18,609	4,047
Unallocated other expenses	(17,992)	(23,110)
Share of losses of associates	(724)	—
	<hr/>	<hr/>
Profit before income tax	73,984	144,799
	<hr/>	<hr/>

5. Revenue and gains

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue (<i>note (i)</i>)	336,769	322,897
Other revenue and gains		
Advertising income	869	2,987
Dividend income from available-for-sale financial asset	—	176
Fair value gain on financial assets designated as at fair value through profit or loss	13,912	609
Fair value gain on derivative financial instruments	—	438
Government grants	1,310	1,196
Interest income on bank balances and loan receivables stated at amortised cost	9,144	10,240
Interest income on financial assets designated as at fair value through profit or loss (<i>note (ii)</i>)	4,519	—
Others	64	135
	<hr/>	<hr/>
	29,818	15,781
	<hr/>	<hr/>
	366,587	338,678
	<hr/>	<hr/>

Notes:

- (i) Revenue, which is also the Group's turnover, represented income earned from operating the online games, less business tax and discounts.
- (ii) Not included in the fair value gain on financial assets designated as at fair value through profit or loss.

6. Profit before income tax

The Group's profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Amortisation of land use rights	99	40
Amortisation of intangible assets	1,942	733
Depreciation of property, plant and equipment	22,513	15,363
Operating lease charges on:		
– land and buildings	3,838	1,227
– computer equipment	23,801	17,396
Development costs	87,769	35,630
Staff costs	127,280	59,256
Net foreign exchange losses	1,186	20,330
Impairment on receivables	—	210
Write off of property, plant and equipment	—	11
	<u> </u>	<u> </u>

7. Income tax expense

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

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax		
– PRC (<i>note (i)</i>)	8,077	29,386
– USA (<i>note (ii)</i>)	98	220
	<u> </u>	<u> </u>
	8,175	29,606
Overprovision		
– PRC	(1,382)	—
Deferred taxation	799	—
	<u> </u>	<u> </u>
Total income tax expense	<u>7,592</u>	<u>29,606</u>

Notes:

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

Fujian TQ Digital Inc. (“TQ Digital”), a subsidiary of the Company, is a foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 29 July 2005.

Pursuant to the Circular Concerning Transitional Preferential Tax Policies in view of the implementation of the PRC Enterprise Income Tax Law (關於實施企業所得稅過渡優惠政策的通知) issued by the State Council (國務院) on 26 December 2007, as TQ Digital is a foreign-invested enterprise and enjoying preferential tax rate of 15% in 2007, the new tax rate is increasing from 15% over 5 years to 25% as transitional provision. Accordingly, the EIT tax rate applicable to TQ Digital during the six months ended 30 June 2008 was 18%.

Pursuant to a notice issued by a government authority (福建省科學技術廳) on 25 November 2008, TQ Digital continues to be recognised as a hi-tech enterprise and is thereby subject to EIT tax rate of 15% for the six months ended 30 June 2009.

Fujian NetDragon Websoft Co. Ltd. (“NetDragon (Fujian)”), another subsidiary of the Company, continued to be recognised as a hi-tech enterprise located in high technology industrial development zone on 9 November 2004. However, NetDragon (Fujian) did not apply to be a hi-tech enterprise in 2008 and in the first half of 2009, the EIT tax rate applicable to NetDragon (Fujian) for the each of six months ended 30 June 2008 and 2009 was 25% accordingly.

Shanghai Tiankun Digital Technology Ltd. (“NetDragon (Shanghai)”), one of the subsidiaries of the Company, is subject to EIT tax rate of 25% for the six months ended 30 June 2009 (six months ended 30 June 2008: 25%).

Fujian TQ Online Interactive Inc. (“TQ Online”), one of the subsidiaries of the Company, is a foreign-invested enterprise and was approved to be a software enterprise. 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) on 22 February 2008, TQ Online 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. 2009 is the first profitable year for TQ Online. Accordingly, TQ Online is not subject to EIT for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

Fuzhou NetDragon TianXiang Technology Inc., a newly incorporated PRC subsidiary, is also subject to EIT tax rate of 25%.

- (ii) The United States of America (“USA”) income tax rates applicable to the Group for the six months ended 30 June 2009 are 34% (six months ended 30 June 2008: 34%) for federal tax and 8.84% (six months ended 30 June 2008: 8.84%) for state income tax.
- (iii) The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Islands (“BVI”) during the six months ended 30 June 2009 (six months ended 30 June 2008: Nil). Provision for Hong Kong profits tax is not made as the Group has not derived any assessable profits in Hong Kong during the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).
- (iv) There was no share of tax attributable to associates included in “Share of losses of associates” in the consolidated income statement.

8. Dividends

Dividends attributable to the interim period

	Six months ended 30 June 2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Interim dividend of HKD0.082 per share (six months ended 30 June 2008: HKD0.1 per share)	<u>38,208</u>	<u>47,496</u>

The interim dividend for the six months ended 30 June 2009 was declared and will be paid after the reporting date and has not been recognised as a liability at the reporting date.

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB66,392,000 (six months ended 30 June 2008: RMB115,305,000) and the number of ordinary shares of 525,773,692 (six months ended 30 June 2008: the weighted average number of ordinary shares of 543,714,096) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2009 is based on the profit attributable to owners of the Company of RMB66,392,000 and the number of ordinary shares of 525,921,139 outstanding during the period, after adjusting for the effects of all dilutive potential ordinary shares.

The number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the number of ordinary shares of 525,773,692 in issue during the period as used in the calculation of basic earnings per share plus the number of ordinary shares of 147,447 deemed to be issued at no consideration as if all the Company's share awards had been vested.

Diluted earnings per share for the six months ended 30 June 2008 has not been presented as there were no dilutive potential shares.

10. Trade and other receivables, prepayments and deposits

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Trade receivables (<i>note</i>)	10,947	9,500
Other receivables	19,869	24,624
Prepayments and deposits	46,714	47,866
	<u>77,530</u>	<u>81,990</u>

Note:

The ageing analysis of trade receivables, based on invoice date, is as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Outstanding balances with ages:		
– 30 days or below	7,803	6,976
– 31 - 60 days	2,590	2,197
– 61 - 90 days	223	56
– 91 - 180 days	97	271
– 181- 365 days	234	—
	10,947	9,500

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

11. Trade and other payables, accruals and deferred income

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Trade payables (<i>note</i>)	951	219
Accrued staff costs	12,127	5,417
Value added tax payables and other tax payables	9,378	5,290
Other payables and accrued charges	35,521	25,913
Deferred income	15,822	16,838
	73,799	53,677

Note:

The ageing analysis of trade payables, based on invoice date, is as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Outstanding balances with ages:		
– Within 90 days	918	185
– 91 - 180 days	22	24
– 181 - 365 days	11	10
	951	219

FINANCIAL PERFORMANCE HIGHLIGHTS

For the six months ended 30 June 2009

	Six months ended 30 June		
	2009	2008	% of change
	(Unaudited)	(Unaudited)	increase/ (decrease)
	RMB'000	RMB'000	
Revenue	336,769	322,897	4.3%
Cost of revenue	(40,806)	(32,401)	25.9%
Other revenue and gains	29,818	15,781	88.9%
Selling and marketing expenses	(67,195)	(44,240)	51.9%
Administrative expenses	(80,518)	(62,313)	29.2%
Development costs	(87,769)	(35,630)	146.3%
Other operating expenses	(15,591)	(19,295)	(19.2%)
Income tax expense	(7,592)	(29,606)	(74.4%)
Profit for the period	66,392	115,193	(42.4%)
Profit for the period attributable to owners of the Company	66,392	115,305	(42.4%)

The profit for the period accounted for approximately 19.7% of total revenue for the six months ended 30 June 2009, compared to approximately 35.7% for the same period of 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

Our total revenue for the six months ended 30 June 2009 was approximately RMB336.8 million, representing an increase of approximately 4.3% as compared to approximately RMB322.9 million for the six months ended 30 June 2008. The increase in revenue was mainly due to (i) the official launch of Chinese version of Way of the Five; (ii) the positive outcome of attacking private servers activities for Eudemons Online; (iii) the launch of expansion packs of Conquer Online, Eudemons Online and Zero Online during the period under review.

However, the revenue of the Group for the three months ended 30 June 2009 amounted to approximately RMB162.9 million, dropped by approximately 6.3% when compared with the three months ended 31 March 2009 of approximately RMB173.9 million, but representing an increase of approximately 10.5% as compared with that of approximately RMB147.3 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			
	30 June 2009	31 March 2009	31 December 2008	30 September 2008	30 June 2008
PCU	632,000	695,000	591,000	544,000	697,000
ACU	310,000	333,000	317,000	311,000	355,000

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 632,000 for the three months ended 30 June 2009, representing a decrease of approximately 9.3% from the three months ended 30 June 2008, and representing a decrease of approximately 9.1% from the three months ended 31 March 2009.

We also recorded an ACU for online games of approximately 310,000 for the three months ended 30 June 2009, which represented a decrease of approximately 12.7% from the three months ended 30 June 2008 and a decrease of approximately 6.9% from the three months ended 31 March 2009.

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

	For the period from 1 April 2009 to 30 June 2009		For the period from 1 January 2009 to 31 March 2009		For the period from 1 April 2008 to 30 June 2008	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
The PRC	132,503	81.4	134,574	77.4	113,854	77.3
Overseas	30,368	18.6	39,324	22.6	33,487	22.7
Total	162,871	100.0	173,898	100.0	147,341	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 three months ended 30 June 2009 was approximately RMB132.5 million, representing an increase of approximately 16.4% as compared to approximately RMB113.9 million for the corresponding period in last year. The increase in revenue derived from the PRC was mainly due to the net effect of (i) the launch of Way of the Five in March 2009; and (ii) the industry seasonal effect. The revenue derived from overseas markets for the three months ended 30 June 2009 amounted to approximately RMB30.4 million, representing a decrease of approximately 9.3% as compared with that of approximately RMB33.5 million for the same period in last year. The reason for the decrease was mainly affected by the industry seasonal effect.

Gross profit

Our gross profit for the six months ended 30 June 2009 was approximately RMB296.0 million, representing an increase of approximately 1.9% as compared to approximately RMB290.5 million for the corresponding period in last year. However, the gross profit margin for the six months ended 30 June 2009 dropped by approximately 2.1% to approximately 87.9% as compared to the six months ended 30 June 2008. The increase of gross profit but the decrease of the gross profit margin 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 six months ended 30 June 2008; and (ii) the increase of licensing fees paid to cooperation partners for the intellectual property rights.

Other revenue and gains

Other revenue and gains for the six months ended 30 June 2009 increased by approximately 88.9% to approximately RMB29.8 million as compared with the six months ended 30 June 2008. The increase in other revenue and gains was mainly attributable to (i) the net increase in the fair value of the 1-year AUD denominated credit-linked note (“AUD Note”) and 1-year USD denominated consecutive digital note of approximately RMB13.9 million was recognised; (ii) the increase in interest income derived from increased term deposits; and (iii) the interest income in the fair value of the AUD Note of approximately RMB4.5 million was recognised.

Selling and marketing expenses

Selling and marketing expenses for the six months ended 30 June 2009 increased by approximately 51.9% to approximately RMB67.2 million as compared with the six months ended 30 June 2008. The increase in the amount of selling and marketing expenses was mainly attributable to our continued advertising and promotion expenses for Conquer Online, Heroes of Might and Magic Online and Way of the Five. Also, in accordance with the terms of agreement with China Film Group Corporation and Ubisoft Entertainment SA, respectively, the Group has to provide marketing support for promoting the collaboration of Tou Ming Zhuang Online and Heroes of Might and Magic Online.

Further, the increase in the amount of selling and marketing expenses was also caused by the increase in staff costs relating to rising employee compensations and continuously recruiting experienced staff to keep checking, preventing and attacking the private servers activities.

The proportion of selling and marketing expenses to the total revenue for each of the six months ended 30 June 2008 and 2009 was approximately 13.7% and 20.0%, respectively.

Administrative expenses

Administrative expenses increased by approximately 29.2% to approximately RMB80.5 million for the six months ended 30 June 2009 as compared with the six months ended 30 June 2008, as a result of the continuous expansion of our online game business. The increase of administrative expenses for the six months ended 30 June 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 the each of the six months ended 30 June 2008 and 2009 was approximately 19.3% and 23.9%, respectively.

Development costs

Development costs increased by approximately 146.3% to approximately RMB87.8 million for the six months ended 30 June 2009 as compared with the six months ended 30 June 2008. The increase in development costs was mainly due to expansion of our development team in line with the development of new online games including cooperation with different business partners as mentioned in the above paragraph headed “Administrative expenses”. The number of staff in our development team increased from 781 as at 30 June 2008 to 1,963 as at 30 June 2009. The increase in the amount of development costs was also caused by the continued increase in staff costs for addressing and resolving the issues of private servers as mentioned in the above paragraph headed “Selling and marketing expenses” and co-operation with outsider service company for design and development.

Other operating expenses

Other operating expenses for the six months ended 30 June 2009 decreased by approximately 19.2% to approximately RMB15.6 million as compared with the six months ended 30 June 2008. The decrease in other operating expenses was attributable to (i) there was no expenses incurred for professional services related to the listings of the Company in 2008; (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; and (iii) the net increase in the fair value loss on the foreign currency forward contract of approximately RMB15.2 million.

Income tax expense

Income tax expense for the six months ended 30 June 2009 dropped by approximately 74.4% as compared with the six months ended 30 June 2008. The decrease in income tax expenses was mainly due to the tax benefit entitled for (i) TQ Digital on the technology transfer income followed by 50% tax reduction based on 中華人民共和國企業所得稅法實施條例 (Regulations on the Implementation of the PRC Enterprise Income Tax Law) for the year 2008; and (ii) TQ Online is entitled to tax benefits of tax exemption for the first two profitable years based on 企業所得稅若干優惠政策 (Circular on Some Preferential Policies for the Enterprise Income Tax) issued by the PRC Ministry of Finance.

Profit attributable to the owners of the Company

Profit attributable to the owners of the Company for the six months ended 30 June 2009 was approximately RMB66.4 million, representing a decrease of approximately RMB48.9 million as compared with approximately RMB115.3 million for the six months ended 30 June 2008.

Liquidity and capital resources

For the period ended 30 June 2009, we had term deposits with initial term of over three months, cash on hand and at bank deposits of approximately RMB1,309.9 million as compared with approximately RMB960.1 million for the year ended 31 December 2008.

For the period ended 30 June 2009, the Group had cash deposited with an online payment service provider of approximately RMB1.5 million as compared with approximately RMB1.4 million for the year ended 31 December 2008.

For the period ended 30 June 2009, the Group had net current assets of approximately RMB1,327.6 million as compared with approximately RMB1,321.1 million for the year ended 31 December 2008.

Foreign currency risks

Our present operations are carried out in the PRC, Hong Kong and USA. All our receipts and payments in relation to the operations are principally denominated in RMB, HKD and USD.

Most of the subsidiaries' functional currencies are RMB since majority of the revenue 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 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.

Contingent assets and liabilities

The Group did not have significant contingent assets and liabilities as at 30 June 2009 (31 December 2008: Nil).

Staff information

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

	At 30 June	
	2009	2008
Game development	1,963	781
Game operation and marketing	646	487
Accounting, finance and general administration	500	214
Total	3,109	1,482

As at 30 June 2009, we had a total of 3,109 employees (30 June 2008: 1,482), 1,963 of which are game developers, representing 63.1% of the total number of staff.

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

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 game

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

Way of the Five

The Group has launched a self-developed cartoon-version of the turn-based online game Way of the Five in March 2009. This game received a number of industry awards, including the "Top Ten Most Popular Online Games for 2008" on the "Tencent Online Game Award List for 2008" and the "Top 10 Most Anticipated Online Games" at the Golden Plume Awards.

The Group also announced a co-operative arrangement with Mr. Stephen Chow Sing-Chi to promote the game.

Development and licensing of existing games

To help maximise the lifespan of its online games, the Group has continued to launch timely upgrades by offering a variety of customised virtual items and tasks to players in order to enhance the in-game features of its existing units. During the period under review, the Group launched upgrades for its online games on a weekly basis which helped to sustain interest in the game among online players.

The Group has also continued to launch expansion packs that offer additional in-game items and premium features to bolster the popularity of its online games. 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 and English versions of Eudemons Online in January and May 2009, respectively. The Group also launched another expansion packs named Raiding Clans for Chinese and English versions of Conquer Online in May and July 2009, 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. 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.

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. Further, the Group has entered into another cooperative agreement with EA for the development of its MMORPG Ultima Online during the period under review.

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 started to develop mobile software applications with which the Group is targeting China's emerging smart-phone users.

Enhancement of R&D capabilities

As of 30 June 2009, the Group had increased its overall staff headcount to a total of 3,109, of which 1,963 are members of the development team. This was done in order to expand and diversify game offerings, while extending the market reach of its product portfolio and to further leverage the inherent advantages of vertical integration as a leading developer and operator of online games. The Group's game development team includes expertise in programming, design and graphics. This type of development team will support our frequent game upgrades and updates to accommodate the latest player preferences and satisfy emerging market trends.

Prospects and outlook

The Group plans to further enhance its core game development capabilities, streamline its integrated model of operation, strengthen marketing efforts and channel management, expand its product mix and extend the life span of its online games in order to enhance the Group's revenue base.

The Group will continue to invest in the development of new and creative online games to attract and retain larger player bases. It also intends to develop new MMORPGs to expand its game portfolio. Currently, the Group has a number of online games in the pipeline, these include Tian Yuan, Disney Fantasy Online, Dungeon Keeper Online and CJ7 Online, etc.. We have commenced the closed beta testing for Tian Yuan and Disney Fantasy Online and expected to launch the games in 2009.

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. 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.

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.

INTERIM DIVIDEND

On the date of this announcement, the Board has resolved to declare an interim dividend of HKD0.082 per share for the six months ended 30 June 2009 (six months ended 30 June 2008: HKD0.1 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 8 September 2009. It is expected that the interim dividend will be distributed on or about 14 September 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 9 September 2009 to Thursday, 10 September 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2009, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 8 September 2009.

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

As at 30 June 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	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%

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 Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui (Note 2)	The Company	Through controlled corporations	280,634,540 (L)	53.09%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan (Note 4)	The Company	Through a controlled corporation	13,900,000(L)	2.63%
Chao Guowei Charles	The Company	Beneficial owner	49,255(L)	0.01%
Lee Kwan Hung	The Company	Beneficial owner	49,255(L)	0.01%
Liu Sai Keung, Thomas	The Company	Beneficial owner	49,255(L)	0.01%

Notes:

1. The letter “L” denotes the shareholder’s long position in the share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.40% of the issued share capital of DJM Holding Ltd., which in turn is interested in 35.01% of the issued share capital of the Company.

Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 4.98% of the issued share capital of the Company.

Zheng Hui is interested in 4.60% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 35.01% and 6.72%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.38% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 53.09% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).
4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.63% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.63% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 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 June 2009, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	185,078,100(L)	35.01%
Fitter Property Inc.	The Company	Beneficial owner	35,498,720(L)	6.72%
Eagle World International Inc. (Note 2)	The Company	Beneficial owner	33,712,920(L)	6.38%
Flowson Company Limited (Note 2)	The Company	Through a controlled corporation	33,712,920(L)	6.38%
IDG Group (Note 3)	The Company	Beneficial owner	78,333,320(L)	14.83%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

Notes:

1. The letter “L” denotes the shareholder’s long position in the share capital of the relevant member of the Group.
2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.38% of the issued share capital of the Company through its shareholding in Eagle World International Inc.

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

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 June 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 June 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 an audit committee with written terms of reference. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control systems of the Group. The audit committee comprises three members, Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas who are the independent non-executive Directors. Chao Guowei, Charles is the chairman of the audit committee.

The Group’s unaudited consolidated results for the six months ended 30 June 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.

INTERNAL CONTROLS

The Board has engaged an independent external professional firm to conduct an interim review of the effectiveness of its internal control systems covering all material controls, including financial operational and compliance controls as well as risk management functions for the period under review.

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 six months ended 30 June 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 enquiry of all Directors, the Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors for the six months ended 30 June 2009.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 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 August 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.