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**NetDragon Websoft Inc.**

**網龍網絡有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

**THIRD QUARTERLY RESULTS ANNOUNCEMENT  
FOR THE THREE MONTHS AND NINE MONTHS ENDED  
30 SEPTEMBER 2010**

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2010. The third quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the “Auditor”) of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

## RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months and nine months ended 30 September 2010 together with the comparative figures for the corresponding period in 2009 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
<b>Revenue</b>	4	<b>128,219</b>	150,877	<b>387,815</b>	487,646
Cost of revenue		<u>(16,368)</u>	<u>(22,881)</u>	<u>(51,715)</u>	<u>(65,594)</u>
Gross profit		<b>111,851</b>	127,996	<b>336,100</b>	422,052
Other income and gains	4	<b>8,565</b>	28,539	<b>23,511</b>	39,926
Selling and marketing expenses		<b>(28,886)</b>	(31,551)	<b>(77,713)</b>	(98,746)
Administrative expenses		<b>(48,059)</b>	(47,085)	<b>(132,239)</b>	(126,460)
Development costs		<b>(36,966)</b>	(55,484)	<b>(112,343)</b>	(143,253)
Other expenses		<b>(1,380)</b>	(179)	<b>(4,840)</b>	(591)
Net loss on derivative financial instruments		—	—	—	(15,214)
Net gain on financial assets designated as fair value through profit or loss		—	—	—	18,431
Share of losses of jointly controlled entities		<u>—</u>	<u>—</u>	<u>—</u>	<u>(724)</u>
<b>Profit before taxation</b>		<b>5,125</b>	22,236	<b>32,476</b>	95,421
Taxation	6	<u>(2,278)</u>	<u>(3,250)</u>	<u>(6,956)</u>	<u>(10,043)</u>
<b>Profit for the period</b>	7	<b>2,847</b>	18,986	<b>25,520</b>	85,378
Other comprehensive expense:					
Exchange differences arising on translation of foreign operations		<u>(49)</u>	<u>(522)</u>	<u>(21)</u>	<u>(720)</u>
Total comprehensive income for the period		<u><b>2,798</b></u>	<u>18,464</u>	<u><b>25,499</b></u>	<u>84,658</u>

		<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>30 September</b>		<b>30 September</b>	
	<i>NOTE</i>	<b>2010</b>	2009	<b>2010</b>	2009
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Profit for the period					
attributable to:					
- Owners of the Company		<b>2,894</b>	19,290	<b>25,657</b>	85,682
- Non-controlling interests		<u>(47)</u>	<u>(304)</u>	<u>(137)</u>	<u>(304)</u>
		<b><u>2,847</u></b>	<b><u>18,986</u></b>	<b><u>25,520</u></b>	<b><u>85,378</u></b>
Total comprehensive					
income attributable to:					
- Owners of the Company		<b>2,845</b>	18,768	<b>25,636</b>	84,962
- Non-controlling interests		<u>(47)</u>	<u>(304)</u>	<u>(137)</u>	<u>(304)</u>
		<b><u>2,798</u></b>	<b><u>18,464</u></b>	<b><u>25,499</u></b>	<b><u>84,658</u></b>
		<b><i>RMB cents</i></b>	<b><i>RMB cents</i></b>	<b><i>RMB cents</i></b>	<b><i>RMB cents</i></b>
<b>Earnings per share</b>	11				
- Basic		<b>0.55</b>	3.67	<b>4.88</b>	16.30
- Diluted		<u><b>0.55</b></u>	<u>3.67</u>	<u><b>4.88</b></u>	<u>16.30</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2010**

		<b>30 September</b>	31 December
	<i>NOTES</i>	<b>2010</b>	2009
		<i>(Unaudited)</i>	<i>(Audited)/</i>
			<i>(Restated)</i>
		<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>142,670</b>	138,011
Prepaid lease payments	8	<b>88,158</b>	12,917
Deposit paid for acquisition of property, plant and equipment		—	8,895
Intangible assets		<b>12,215</b>	12,980
Interests in jointly controlled entities	9	—	—
Available-for-sale investments		<b>4,000</b>	4,000
Loan receivables		<b>6,713</b>	7,313
Deferred tax assets		<b>54</b>	54
		<u><b>253,810</b></u>	<u>184,170</u>
<b>Current assets</b>			
Prepaid lease payments	8	<b>1,982</b>	228
Loan receivables		<b>227</b>	893
Trade receivables	12	<b>19,161</b>	14,128
Other receivables, prepayments and deposits		<b>51,383</b>	66,272
Held for trading investments		<b>802</b>	377
Amount due from a related company		<b>59</b>	—
Advance to a jointly controlled entity	13	—	29,000
Tax recoverable		<b>5,347</b>	20
Bank deposits		<b>439,643</b>	551,970
Bank balances and cash		<b>748,354</b>	705,053
		<u><b>1,266,958</b></u>	<u>1,367,941</u>

	<i>NOTE</i>	<b>30 September 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited)/ (Restated) RMB'000
<b>Current liabilities</b>			
Trade payables	14	1,576	285
Other payables and accruals		43,882	67,881
Deferred income		21,060	18,189
Income tax payable		<u>14,555</u>	<u>9,935</u>
		<u>81,073</u>	<u>96,290</u>
<b>Net current assets</b>		<u>1,185,885</u>	<u>1,271,651</u>
		<u>1,439,695</u>	<u>1,455,821</u>
<b>Capital and reserves</b>			
Share capital		39,264	39,264
Share premium and reserves		<u>1,401,052</u>	<u>1,417,041</u>
Equity attributable to owners of the Company		1,440,316	1,456,305
Non-controlling interests		<u>(621)</u>	<u>(484)</u>
		<u>1,439,695</u>	<u>1,455,821</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

Attributable to owners of the Company													
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Statutory reserves	Dividend reserve	Treasury share reserve	Employee share-based compensation reserve	Translation 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
<b>At 1 January 2009</b>	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
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	(720)	—	(720)	—	(720)
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	85,682	85,682	(304)	85,378
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	(720)	85,682	84,962	(304)	84,658
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	1,872	—	—	1,872	—	1,872
Final dividend for 2008 paid	—	—	—	—	—	(51,275)	—	—	—	—	(51,275)	—	(51,275)
Interim dividend for 2009 declared and paid	—	—	—	—	—	—	—	—	—	(38,208)	(38,208)	—	(38,208)
<b>At 30 September 2009 (unaudited)</b>	<u>39,264</u>	<u>1,157,364</u>	<u>1,963</u>	<u>9,946</u>	<u>97,692</u>	<u>—</u>	<u>(12,432)</u>	<u>1,872</u>	<u>(56,427)</u>	<u>211,920</u>	<u>1,451,162</u>	<u>(304)</u>	<u>1,450,858</u>
<b>At 1 January 2010</b>	39,264	1,157,364	1,963	9,946	114,642	23,270	(10,757)	4,641	(56,491)	172,463	1,456,305	(484)	1,455,821
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	(21)	—	(21)	—	(21)
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	25,657	25,657	(137)	25,520
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	(21)	25,657	25,636	(137)	25,499
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	4,701	—	—	4,701	—	4,701
Final dividend for 2009 paid	—	—	—	—	—	(23,270)	—	—	—	—	(23,270)	—	(23,270)
Interim dividend for 2010 declared and paid	—	—	—	—	—	—	—	—	—	(23,056)	(23,056)	—	(23,056)
Transfer	—	—	—	—	17	—	—	—	—	(17)	—	—	—
<b>At 30 September 2010 (unaudited)</b>	<u>39,264</u>	<u>1,157,364</u>	<u>1,963</u>	<u>9,946</u>	<u>114,659</u>	<u>—</u>	<u>(10,757)</u>	<u>9,342</u>	<u>(56,512)</u>	<u>175,047</u>	<u>1,440,316</u>	<u>(621)</u>	<u>1,439,695</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

		<b>Nine months ended</b>	
		<b>30 September</b>	
		<b>2010</b>	2009
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH FROM OPERATING ACTIVITIES		<u><b>50,583</b></u>	<u>161,444</u>
INVESTING ACTIVITIES:			
Acquisition of assets	16	<b>(58,149)</b>	—
Proceeds from disposal of interests in jointly controlled entities		<b>4,000</b>	—
Other investing cash flows		<u><b>92,772</b></u>	<u>500,890</u>
NET CASH FROM INVESTING ACTIVITIES		<u><b>38,623</b></u>	<u>500,890</u>
FINANCING ACTIVITY:			
Dividends paid		<u><b>(46,326)</b></u>	<u>(89,483)</u>
CASH USED IN FINANCING ACTIVITY		<u><b>(46,326)</b></u>	<u>(89,483)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<b>42,880</b>	572,851
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		<b>705,053</b>	332,009
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<u><b>421</b></u>	<u>(720)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH		<u><b>748,354</b></u>	<u>904,140</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**1. GENERAL**

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 24 June 2008. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 2209, 22nd Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

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

**2. BASIS OF PREPARATION**

The amounts included in the condensed consolidated financial information has been computed in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA applicable to interim periods. However, it does not contain sufficient information to constitute an interim financial report defined in HKFRSs.

**3. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies used in the condensed consolidated financial information is consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

The Group applies Hong Kong Financial Reporting Standard (“HKFRS”) 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in Hong Kong Accounting Standard (“HKAS”) 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial information of the Group for the current or prior accounting periods.



Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

#### Amendment to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the condensed consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions of HKAS 17 Leases, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases. Leasehold lands which met finance lease classification have been reclassified from prepaid lease payments to property, plant, and equipment retrospectively, resulting in a reclassification of prepaid lease payments with previous carrying amount of approximately RMB28,785,000 as at 31 December 2009 as property, plant and equipment that are measured at cost model.

Summary of the effect of the above changes in accounting policies:

The effect of changes in accounting policies described above on the financial position of the Group as at 31 December 2009 is as follows:

	<b>As at 31 December 2009 (Originally stated)</b>	<b>Adjustments</b>	<b>As at 31 December 2009 (Restated)</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	109,226	28,785	138,011
Prepaid lease payments - non-current	41,075	(28,158)	12,917
Prepaid lease payments - current	<u>855</u>	<u>(627)</u>	<u>228</u>
Total effect on net assets	<u><u>151,156</u></u>	<u><u>—</u></u>	<u><u>151,156</u></u>

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial information of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 7 (Amendment)	Disclosures — Transfers of Financial Assets <sup>5</sup>
HKFRS 9	Financial Instruments <sup>6</sup>
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) - INT 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2013

\* IFRIC represents the International Financial Reporting Interpretations Committee

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

#### 4. REVENUE, OTHER INCOME AND GAINS

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenue</b>				
Online game revenue	<u>128,219</u>	<u>150,877</u>	<u>387,815</u>	<u>487,646</u>
<b>Other income and gains</b>				
Advertising income	56	593	211	1,462
Business tax refunded	—	13,869	208	13,869
Gain on disposal of jointly controlled entities	—	—	4,000	—
Government grants (Note)	2,277	8,121	3,387	9,431
Interest income	3,153	2,832	8,924	11,976
Net gain on fair value change of held for trading investments	1,354	2,443	3,060	2,443
Mobile internet business income	948	—	2,472	—
Others	<u>777</u>	<u>681</u>	<u>1,249</u>	<u>745</u>
	<u>8,565</u>	<u>28,539</u>	<u>23,511</u>	<u>39,926</u>

Note:

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

#### 5. SEGMENT INFORMATION

Operating segment information is based on internal management reporting information that is regularly reviewed by the executive directors, being the chief operating decision maker ("CODM") of the Group for the purpose of allocating resources to segments and assessing their performance.

There is only one business component in the internal reporting to the CODM, which is the online game development and operation and marketing of those online games.

The following is an analysis of the Group's revenue and results by operating segment:

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>128,219</u>	<u>150,877</u>	<u>387,815</u>	<u>487,646</u>
Segment profit	14,435	15,708	61,422	116,225
Unallocated income and gains	6,288	20,418	20,124	30,495
Net loss on derivative financial instruments	—	—	—	(15,214)
Net gain on financial assets designated as fair value through profit or loss	—	—	—	18,431
Unallocated expenses	(15,598)	(13,890)	(49,070)	(53,792)
Share of losses of jointly controlled entities	<u>—</u>	<u>—</u>	<u>—</u>	<u>(724)</u>
Profit before taxation	<u>5,125</u>	<u>22,236</u>	<u>32,476</u>	<u>95,421</u>

The executive directors assess segment profit or loss using a measure of operating profit whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, share of losses of jointly controlled entities, net loss on derivative financial instruments, net gain on financial assets designated as fair value through profit or loss, income tax expenses, unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

The following is an analysis of the Group's assets by operating segment:

	30 September	31 December
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Operating segment assets	1,214,865	1,093,510
Unallocated	<u>305,903</u>	<u>458,601</u>
	<u>1,520,768</u>	<u>1,552,111</u>

## 6. TAXATION

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
The PRC Enterprise Income Tax ("EIT")	<b>2,194</b>	3,170	<b>6,819</b>	9,865
Taxation in other jurisdictions	<u>84</u>	<u>80</u>	<u>137</u>	<u>178</u>
	<u><b>2,278</b></u>	<u>3,250</u>	<u><b>6,956</b></u>	<u>10,043</u>

The PRC EIT is calculated at the applicable prevailing tax rates in the PRC.

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

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

## 7. PROFIT FOR THE PERIOD

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period has been arrived at after charging:				
Staff costs:				
Directors' emoluments	2,312	374	5,235	2,127
Other staff costs				
Salaries and other benefits	50,621	63,279	157,998	181,256
Contributions to retirement benefits schemes	4,590	4,105	12,812	10,583
Share-based payments expense	547	—	1,641	1,072
	<u>58,070</u>	<u>67,758</u>	<u>177,686</u>	<u>195,038</u>
Amortisation of intangible assets (included in cost of revenue)	1,187	1,048	3,485	2,955
Amortisation of intangible assets (included in other expenses)	548	18	1,418	53
Release of prepaid lease payments	177	34	389	133
Depreciation of property, plant and equipment	12,490	13,623	38,772	36,136
Operating lease rentals in respect of:				
- rented premises	4,649	6,513	12,183	10,351
- computer equipment	8,581	12,749	28,374	36,550
Net foreign exchange loss	5,031	162	8,744	1,348
Loss on disposal of property, plant and equipment	—	13	367	13

## 8. PREPAID LEASE PAYMENTS

Prepaid lease payments include a carrying amount of approximately RMB34,221,000 (2009: Nil) which relates to land located in the PRC and the Group is in the process of obtaining the land use right certificates.

## 9. DISPOSAL OF JOINTLY CONTROLLED ENTITIES

At 31 December 2009, the Group held 50% interest in 上海晶茂文化傳播有限公司 and 50% interest in 上海合進數據信息諮詢有限公司 and accounted for these investments as jointly controlled entities. In May 2010, the Group entered into two agreements with the same independent third party for the disposal of interests in jointly controlled entities. These transactions have resulted in the recognition of a gain in the condensed consolidated statement of comprehensive income, calculations as follows:

	<i>RMB'000</i>
Proceeds on disposal	4,000
Less: carrying amount of interests in jointly controlled entities on the date of disposal	<u>—</u>
Gain recognised	<u><u>4,000</u></u>

## 10. DIVIDENDS

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend of HKD0.05 per share for the year ended 31 December 2009 recognised as distribution during the interim period (2009: HKD0.11 per share for year ended 31 December 2008)	<u>—</u>	<u>—</u>	<u><b>23,270</b></u>	<u>51,275</u>

Interim dividend of HKD0.05 per share for the six months ended 30 June 2010 (six months ended 30 June 2009: HKD0.082 per share), amounting to RMB23,056,000 (six month ended 30 June 2009: RMB38,208,000) in aggregate, had been approved by the Directors at the board meeting and was paid on 8 September 2010.

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2010 (three months ended 30 September 2009: Nil).

## 11. EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share				
- profit for the period attributable to the owners of the Company	<u>2,894</u>	<u>19,290</u>	<u>25,657</u>	<u>85,682</u>
	<b>Number of shares</b>			
	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	'000	'000	'000	'000
Number of shares for the purpose of basic earnings per share	526,151	525,774	526,151	525,774
Effect of dilutive potential shares from the Company's share award scheme	<u>—</u>	<u>175</u>	<u>—</u>	<u>—</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>526,151</u>	<u>525,949</u>	<u>526,151</u>	<u>525,774</u>

The presentation of diluted earnings per share for the three months and nine months ended 30 September 2010 have not taken into account the effect of potential shares under share award scheme and share option scheme because the exercise price of the Company's shares under the share award scheme and share option scheme was higher than the average market price of the shares for the three months and nine months ended 30 September 2010.

The presentation of diluted earnings per share for the nine months ended 30 September 2009 had not taken into account the effect of potential shares under share award scheme because the exercise price of the Company's shares under the share award scheme was higher than the average market price of the shares for the nine months ended 30 September 2009.



## 12. TRADE RECEIVABLES

The Group allows a credit period of 30 days to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts by age, presented based on the invoice date at the end of reporting period.

	<b>30 September 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
0 - 30 days	<b>12,930</b>	11,513
31 - 60 days	<b>3,569</b>	1,949
61 - 90 days	<b>1,755</b>	101
Over 90 days	<u><b>907</b></u>	<u>565</u>
	<u><b>19,161</b></u>	<u>14,128</u>

## 13. ADVANCE TO A JOINTLY CONTROLLED ENTITY

The amount was unsecured, non-interest bearing and was fully repaid during the period.

## 14. TRADE PAYABLES

The following is an aged analysis of trade payables by age, presented based on the invoice date at the end of the reporting period.

	<b>30 September 2010 (Unaudited) RMB'000</b>	31 December 2009 (Audited) RMB'000
0 - 90 days	<b>1,543</b>	268
91 - 180 days	<b>22</b>	6
181 - 365 days	<b>—</b>	—
Over 365 days	<u><b>11</b></u>	<u>11</u>
	<u><b>1,576</b></u>	<u>285</u>

## 15. SHARE-BASED PAYMENT TRANSACTIONS

### (i) Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 12 June 2008. The purpose of the Scheme is to provide the eligible participant (the "Eligible Participant") as defined in the Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Details of specific categories of options are as follows:

<b>Date of grant</b>	<b>Vesting period</b>	<b>Exercise period</b>	<b>Number of share options at 1 January 2010 and 30 September 2010</b>
7 December 2009	N/A	7 December 2009 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2010	7 December 2010 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2011	7 December 2011 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2012	7 December 2012 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2013	7 December 2013 - 6 December 2019	1,360,000
			<u>6,800,000</u>

No options were granted or exercised during the period. The number of share options outstanding at 30 September 2010 was 6,800,000.

### (ii) Share award scheme

The Company has a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The rationale of the Share Award Scheme is to recognise the contributions by certain employees and to provide 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. The selected employee are not required to pay for the grant of the Award or for the shares allotted or allocated pursuant to the Award.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB142,000 and RMB428,000 for the three months and nine months ended 30 September 2010 respectively (three months and nine months ended 30 September 2009: Nil and approximately RMB1,872,000 respectively) in relation to share award.

Among the Award granted on 15 October 2008, 376,832 share awards vested on 6 November 2008, 376,832 share awards vested on 6 November 2009, 524,594 share awards vested on 6 November 2010, 229,065 share awards vest on 6 November 2011 and the remaining 79,677 share awards vest on 6 November 2012. The Award are normally released to the selected employees within one month after the vesting date.

No share awards were vested and released during the period. The number of share awards outstanding at 30 September 2010 was 833,336.

## 16. ACQUISITION OF ASSETS

In April 2010, the Group has acquired prepaid lease payments and other assets and liabilities held by Fujian TianDi Animation Technologies Co. Ltd. (福建天棣動漫科技有限公司) (“Fujian TianDi”) through the acquisition of Fujian TianDi’s entire registered capital. The transaction was completed on 21 June 2010.

### Assets and liabilities recognised at the date of acquisition

	<i>RMB'000</i>
<b>Non-current assets</b>	
Property, plant and equipment	15,065
Prepaid lease payments	42,380
<b>Current assets</b>	
Other receivables	307
Prepaid lease payments	677
Held for trading investments	15
Bank balances and cash	9,555
<b>Current liabilities</b>	
Other payables	<u>(295)</u>
<b>Net asset value</b>	<u><u>67,704</u></u>

## Net cash outflow arising on acquisition

	<i>RMB'000</i>
Consideration paid in cash	67,704
Less: cash and cash equivalent balances acquired	<u>(9,555)</u>
	<u>58,149</u>

## 17. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, who have entered into agreement to collectively govern the financial and operating policies of the Company and various subsidiaries.

The Group had the following significant related party transactions and balances during the period with certain companies in which some Directors and shareholders of the Company have beneficial interests.

### Name of/and relationship with related parties

Name of related parties	Relationship
Mr. Liu Luyuan	Executive director and beneficial owner of the Company
Mr. Wu Jialiang	Key management of the Group
Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. (“Fuzhou 851”)	DJM Holding Ltd., the immediate holding company, and Mr. Liu Dejian together have 73.13% equity interest in this entity
福州天亮網絡技術有限公司 (“Fuzhou Tianliang”)	An entity wholly owned by Ms. Lin Hang, which acting under the instruction of controlling shareholders

Nature of transactions	Three months ended		Nine months ended	
	30 September 2010 <i>(Unaudited)</i> <i>RMB'000</i>	2009 <i>(Unaudited)</i> <i>RMB'000</i>	30 September 2010 <i>(Unaudited)</i> <i>RMB'000</i>	2009 <i>(Unaudited)</i> <i>RMB'000</i>
Rental charges by Fuzhou 851	634	583	1,908	1,721
Service fee at recreation centre paid to Fuzhou 851	1,500	1,500	4,500	2,583
After-sales service fee paid to Fuzhou Tianliang	2,558	372	6,759	1,451
Technical service fee paid to Fuzhou Tianliang	548	372	1,448	1,451
Interest received on loan advanced to key management	<u>9</u>	<u>9</u>	<u>26</u>	<u>26</u>

In addition, included in loan receivables at 30 September 2010 was loan advanced to key management of approximately RMB700,000 (31 December 2009: RMB700,000).

### Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	798	841	2,393	2,438
Contributions to retirement benefits schemes	17	18	51	51
Share-based payments expense	<u>1,510</u>	<u>—</u>	<u>4,531</u>	<u>1,872</u>
	<u><u>2,325</u></u>	<u><u>859</u></u>	<u><u>6,975</u></u>	<u><u>4,361</u></u>

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

### 18. CAPITAL COMMITMENTS

At the end of reporting period, the Group had outstanding capital commitments as follows:

	30 September	31 December
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial information	<u><u>38,491</u></u>	<u><u>13,832</u></u>

### 19. EVENT AFTER THE REPORTING PERIOD

As announced by the Company on 25 October 2010, an indirectly wholly owned subsidiary of the Company has entered into two agreements at considerations of approximately RMB82,927,000 (equivalent to approximately HKD96,445,000) and RMB40,951,000 (equivalent to approximately HKD47,626,000) with an independent third party for the construction of building on a land in Fuzhou, the PRC which the Group has obtained land use rights for 50 years.

## OPERATION INFORMATION

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

	30 September 2010	For the three months ended			30 September 2009
		30 June 2010	31 March 2010	31 December 2009	
PCU	<b>589,000</b>	449,000	451,000	492,000	519,000
ACU	<b>226,000</b>	217,000	230,000	253,000	273,000

*Note:* As at 30 September 2010, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online, CJ7 Online and other games.

The PCU for online games was approximately 589,000 for the three months ended 30 September 2010, representing an increase of approximately 31.2% from the three months ended 30 June 2010 and representing an increase of approximately 13.5% from the three months ended 30 September 2009.

We also recorded the ACU for online games of approximately 226,000 for the three months ended 30 September 2010, which represented an increase of approximately 4.1% from the three months ended 30 June 2010 and represented a decrease of approximately 17.2% from the three months ended 30 September 2009.

**FINANCIAL PERFORMANCE HIGHLIGHTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

The following table sets forth the comparative figures for the nine months ended 30 September 2010 and 2009:

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2010</b>	<b>2009</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<b>387,815</b>	487,646
Cost of revenue	<u>(51,715)</u>	<u>(65,594)</u>
Gross profit	<b>336,100</b>	422,052
Other income and gains	<b>23,511</b>	39,926
Selling and marketing expenses	<b>(77,713)</b>	(98,746)
Administrative expenses	<b>(132,239)</b>	(126,460)
Development costs	<b>(112,343)</b>	(143,253)
Other expenses	<b>(4,840)</b>	(591)
Net loss on derivative financial instruments	—	(15,214)
Net gain on financial assets designated as fair value through profit or loss	—	18,431
Share of losses of jointly controlled entities	<u>—</u>	<u>(724)</u>
<b>Profit before taxation</b>	<b>32,476</b>	95,421
Taxation	<u>(6,956)</u>	<u>(10,043)</u>
<b>Profit for the period</b>	<u><b>25,520</b></u>	<u>85,378</u>
Profit for the period attributable to:		
- Owners of the Company	<b>25,657</b>	85,682
- Non-controlling interests	<u>(137)</u>	<u>(304)</u>
	<u><b>25,520</b></u>	<u>85,378</u>

**Revenue**

Revenue decreased by approximately 20.5% to approximately RMB387.8 million for the nine months ended 30 September 2010 from approximately RMB487.6 million for the nine months ended 30 September 2009.

The following table sets out the breakdown of geographical revenue of the Group for the nine months ended 30 September 2010 and 2009:

	<b>For the nine months ended</b>			
	<b>30 September 2010</b>		<b>30 September 2009</b>	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
PRC	<b>298,391</b>	<b>76.9</b>	385,874	79.1
Overseas	<u><b>89,424</b></u>	<u><b>23.1</b></u>	<u>101,772</u>	<u>20.9</u>
	<u><b>387,815</b></u>	<u><b>100.0</b></u>	<u>487,646</u>	<u>100.0</u>

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the nine months ended 30 September 2010 was approximately RMB298.4 million, representing a decrease of approximately 22.7% over the nine months ended 30 September 2009.

The revenue derived from overseas markets for the nine months ended 30 September 2010 was approximately RMB89.4 million, representing a decrease of approximately 12.1% over the nine months ended 30 September 2009.

### **Third Quarter of 2010**

#### **Revenue**

Revenue for the third quarter of 2010 was approximately RMB128.2 million, representing an increase of approximately 6.7% from the second quarter of 2010 and a decrease of approximately 15.0% over the same period in 2009.

#### **Cost of revenue**

Cost of revenue for the third quarter of 2010 was approximately RMB16.4 million, representing a decrease of approximately 1.6% from the second quarter of 2010 and a decrease of approximately 28.5% over the same period in 2009.

#### **Other income and gains**

Other income and gains of approximately RMB8.6 million were recorded for the third quarter of 2010, compared to other income and gains that of approximately RMB9.3 million and approximately RMB28.5 million for the second quarter of 2010 and the same period in 2009, respectively.



### **Selling and marketing expenses**

Selling and marketing expenses for the third quarter of 2010 were approximately RMB28.9 million, representing an increase of approximately 8.5% from the second quarter of 2010 and a decrease of approximately 8.4% over the same period in 2009.

### **Administrative expenses**

Administrative expenses for the third quarter of 2010 were approximately RMB48.1 million, representing an increase of approximately 14.4% from the second quarter of 2010 and representing an increase of approximately 2.1% over the same period in 2009.

### **Development costs**

Development costs for the third quarter of 2010 were approximately RMB37.0 million, representing an increase of approximately 3.7% from the second quarter of 2010 and a decrease of approximately 33.4% over the same period in 2009.

### **Other expenses**

Other expenses for the third quarter of 2010 were approximately RMB1.4 million, representing a decrease of approximately 45.5% from the second quarter of 2010 but an increase of approximately 670.9% over the same period in 2009.

### **Profit for the period**

Profit for the period for the third quarter of 2010 was approximately RMB2.8 million, representing an increase of approximately 89.4% from the second quarter of 2010 and a decrease of approximately 85.0% over the same period in 2009. As a percentage of revenue, profit for the period accounted for approximately 2.2% for the third quarter of 2010, compared to approximately 1.3% for the second quarter of 2010 and approximately 12.6% for the same period of 2009.

### **Profit for the period attributable to the owners of the Company**

Profit for the period attributable to the owners of the Company for the third quarter of 2010 was approximately RMB2.9 million, representing an increase of approximately 87.0% from the second quarter of 2010 and a decrease of approximately 85.0% over the same period in 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Third Quarter of 2010 Compared to Second Quarter of 2010

The following table sets forth the comparative figures for the third quarter of 2010 and the second quarter of 2010:

	<b>Three months ended</b>	
	<b>30 September</b>	<b>30 June</b>
	<b>2010</b>	<b>2010</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<b>128,219</b>	120,120
Cost of revenue	<u>(16,368)</u>	<u>(16,630)</u>
Gross profit	<b>111,851</b>	103,490
Other income and gains	<b>8,565</b>	9,286
Selling and marketing expenses	<b>(28,886)</b>	(26,630)
Administrative expenses	<b>(48,059)</b>	(42,004)
Development costs	<b>(36,966)</b>	(35,638)
Other expenses	<u>(1,380)</u>	<u>(2,532)</u>
<b>Profit before taxation</b>	<b>5,125</b>	5,972
Taxation	<u>(2,278)</u>	<u>(4,468)</u>
<b>Profit for the period</b>	<u><b>2,847</b></u>	<u>1,504</u>
Profit for the period attributable to:		
- Owners of the Company	<b>2,894</b>	1,548
- Non-controlling interests	<u>(47)</u>	<u>(44)</u>
	<u><b>2,847</b></u>	<u>1,504</u>

## FINANCIAL REVIEW

### Revenue

Our revenue for the three months ended 30 September 2010 was approximately RMB128.2 million, representing an increase of approximately 6.7% as compared to approximately RMB120.1 million for the three months ended 30 June 2010. The increase in revenue was mainly due to the official launch of CJ7 Online.

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

	Three months ended			
	30 September 2010		30 June 2010	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
PRC	<b>100,165</b>	<b>78.1</b>	93,760	78.1
Overseas	<b>28,054</b>	<b>21.9</b>	26,360	21.9
	<b><u>128,219</u></b>	<b><u>100.0</u></b>	<b><u>120,120</u></b>	<b><u>100.0</u></b>

The revenue derived from the PRC for the three months ended 30 September 2010 was approximately RMB100.2 million, representing an increase of approximately 6.8% as compared to approximately RMB93.8 million for the three months ended 30 June 2010. The increase in revenue derived from the PRC was mainly due to the official launch of CJ7 Online in July 2010.

The revenue derived from overseas markets for the three months ended 30 September 2010 was approximately RMB28.1 million, representing an increase of approximately 6.4% as compared to approximately RMB26.4 million for the three months ended 30 June 2010.

### Cost of revenue

Cost of revenue for the three months ended 30 September 2010 was approximately RMB16.4 million, representing a decrease of approximately 1.6% as compared to approximately RMB16.6 million for the three months ended 30 June 2010, which was mainly due to the positive result from the continuing actions taken on cost control.

## **Gross profit**

Our gross profit for the three months ended 30 September 2010 was approximately RMB111.9 million, representing an increase of approximately 8.1% as compared to approximately RMB103.5 million for the three months ended 30 June 2010.

The gross profit margin for the three months ended 30 September 2010 was approximately 87.2%, which represented an increase of approximately 1.0% as compared with the three months ended 30 June 2010.

## **Other income and gains**

Other income and gains for the three months ended 30 September 2010 were approximately RMB8.6 million, representing a decrease of approximately 7.8% as compared with the three months ended 30 June 2010. The decrease in other income and gains was caused by the disposal of interests in jointly controlled entities, as a result of the Group entered into two agreements with the same independent third party in May 2010, and recognition of approximately RMB4.0 million for the gain on the disposal during the second quarter of 2010.

However, the other income derived from mobile internet business (which is formerly known as “mobile software applications business”) for the three months ended 30 September 2010 was approximately RMB0.9 million, representing an increase of approximately RMB0.5 million for the three months ended 30 June 2010.

## **Selling and marketing expenses**

Selling and marketing expenses for the three months ended 30 September 2010 were approximately RMB28.9 million, representing an increase of approximately 8.5% as compared with the three months ended 30 June 2010. The increase in the amount of selling and marketing expenses was mainly due to the increase in advertising and promotion activities for Disney Fantasy Online, Tian Yuan and CJ7 Online.

Despite, the Group re-allocated the resources to develop the mobile internet business. As at 30 September 2010, the number of staff in the mobile internet business was 159, which have increased, as compared with the number of staff as at 30 June 2010. The selling and marketing expenses of mobile internet business for the three months ended 30 September 2010 and 30 June 2010 were approximately RMB0.4 million and approximately RMB0.3 million, respectively.

## **Administrative expenses**

Administrative expenses increased by approximately 14.4% to approximately RMB48.1 million for the three months ended 30 September 2010 as compared with the three months ended 30 June 2010, which was mainly due to the exchange loss resulted from appreciation of RMB against USD and HKD for the three months ended 30 September 2010.

Besides that, the Group re-allocated the resources to develop the integrated application development (which is formerly known as “integrated operation model”) and other new business divisions. As at 30 September 2010, the total number of staff in the integrated application development and other new business divisions was 69, which have increased, as compared with the number of staff as at 30 June 2010. The total administrative expenses of integrated application development and other new business divisions for the three months ended 30 September 2010 and 30 June 2010 were approximately RMB1.0 million and approximately RMB0.7 million, respectively.

## **Development costs**

Development costs increased by approximately 3.7% to approximately RMB37.0 million for the three months ended 30 September 2010 as compared with the three months ended 30 June 2010. The increase in the amount of development costs was caused by (i) the increase in co-operation with outside service companies for design and development of online games; and (ii) an one-off termination cost for an agreement signed with a Korea game design company for a development project of approximately RMB3.3 million.

Despite, the Group re-allocated the resources to develop the mobile internet business and integrated application development. As at 30 September 2010, the total number of staff in the mobile internet business and integrated application development was 111, which have decreased, as compared with the number of staff as at 30 June 2010. The total development costs of mobile internet business and integrated application development for the three months ended 30 September 2010 and 30 June 2010 were approximately RMB4.8 million and approximately RMB6.5 million, respectively.

**Other expenses**

Other expenses for the three months ended 30 September 2010 were approximately RMB1.4 million. The decrease as compared with the three months ended 30 June 2010 was caused by not having donation made for the three months ended 30 September 2010, which was amounted as approximately RMB1.8 million for the three months ended 30 June 2010.

**Taxation**

Taxation for the three months ended 30 September 2010 was approximately RMB2.3 million, which dropped by approximately 49.0% as compared with the three months ended 30 June 2010. The decrease as compared with the three months ended 30 June 2010 was mainly due to no dividend declared for the three months ended 30 September 2010, thus caused no taxation effects arising during the period.

**Profit for the period attributable to the owners of the Company**

Profit for the period attributable to the owners of the Company for the three months ended 30 September 2010 was approximately RMB2.9 million, representing an increase of approximately RMB1.4 million as compared with approximately RMB1.5 million for the three months ended 30 June 2010.

### Third Quarter of 2010 Compared to Third Quarter of 2009

The following table sets forth the comparative figures for the third quarter of 2010 and the third quarter of 2009:

	<b>Three months ended</b>	
	<b>30 September</b>	30 September
	<b>2010</b>	2009
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<b>128,219</b>	150,877
Cost of revenue	<u>(16,368)</u>	<u>(22,881)</u>
Gross profit	<b>111,851</b>	127,996
Other income and gains	<b>8,565</b>	28,539
Selling and marketing expenses	<b>(28,886)</b>	(31,551)
Administrative expenses	<b>(48,059)</b>	(47,085)
Development costs	<b>(36,966)</b>	(55,484)
Other expenses	<u>(1,380)</u>	<u>(179)</u>
<b>Profit before taxation</b>	<b>5,125</b>	22,236
Taxation	<u>(2,278)</u>	<u>(3,250)</u>
<b>Profit for the period</b>	<u><b>2,847</b></u>	<u>18,986</u>
Profit for the period attributable to:		
- Owners of the Company	<b>2,894</b>	19,290
- Non-controlling interests	<u>(47)</u>	<u>(304)</u>
	<u><b>2,847</b></u>	<u>18,986</u>

## FINANCIAL REVIEW

### Revenue

Our revenue for the three months ended 30 September 2010 was approximately RMB128.2 million, representing a decrease of approximately 15.0% as compared to approximately RMB150.9 million for the three months ended 30 September 2009.

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

	Three months ended			
	30 September 2010		30 September 2009	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
PRC	<b>100,165</b>	<b>78.1</b>	118,797	78.7
Overseas	<u><b>28,054</b></u>	<u><b>21.9</b></u>	<u>32,080</u>	<u>21.3</u>
	<u><b>128,219</b></u>	<u><b>100.0</b></u>	<u>150,877</u>	<u>100.0</u>

The revenue derived from the PRC for the three months ended 30 September 2010 was approximately RMB100.2 million, representing a decrease of approximately 15.7% as compared to approximately RMB118.8 million for the three months ended 30 September 2009.

The revenue derived from overseas markets for the three months ended 30 September 2010 amounted to approximately RMB28.1 million, representing a decrease of approximately 12.5% as compared with that of approximately RMB32.1 million for the three months ended 30 September 2009.

### Cost of revenue

Cost of revenue for the three months ended 30 September 2010 decreased by approximately 28.5% to approximately RMB16.4 million as compared with that of approximately RMB22.9 million for the three months ended 30 September 2009. The decrease in cost of revenue was caused by the positive result from the continuing actions taken on cost control.

### Gross profit

Our gross profit for the three months ended 30 September 2010 was approximately RMB111.9 million, representing a decrease of approximately 12.6% as compared to approximately RMB128.0 million for the three months ended 30 September 2009.



However, the gross profit margin for the three months ended 30 September 2010 was approximately 87.2%, which represented an increase of approximately 2.4% as compared with the three months ended 30 September 2009.

### **Other income and gains**

Other income and gains for the three months ended 30 September 2010 decreased by approximately 70.0% to approximately RMB8.6 million as compared with the three months ended 30 September 2009. The decrease in other income and gains was mainly due to (i) there are no tax benefit entitled for the business tax refund during the period under review; and (ii) the decrease in government grants received.

However, the other income derived from mobile internet business for the three months ended 30 September 2010 was approximately RMB0.9 million, representing an increase of approximately RMB0.9 million for the three months ended 30 September 2009.

### **Selling and marketing expenses**

Selling and marketing expenses for the three months ended 30 September 2010 decreased by approximately 8.4% to approximately RMB28.9 million as compared with the three months ended 30 September 2009. The decrease in selling and marketing expenses was mainly due to (i) the decrease in promotion activities for the delay in launching of new games; and (ii) the decline in headcount as a result of implementation of talent optimization project as mentioned in the section of “Corporate Culture and Social Responsibilities” of the 2009 annual report and the effect of which has been reflected during the period under review.

Despite, the Group re-allocated the resources to develop the mobile internet business. As at 30 September 2010, the number of staff in the mobile internet business was 159, which have decreased, as compared with the number of staff as at 30 September 2009. The selling and marketing expenses of mobile internet business for the three months ended 30 September 2010 and 30 September 2009 were approximately RMB0.4 million and approximately RMB2.3 million, respectively.

### **Administrative expenses**

Administrative expenses increased by approximately 2.1% to approximately RMB48.1 million for the three months ended 30 September 2010 as compared with the three months ended 30 September 2009. The increase in administrative expenses was mainly due to net off of (i) the exchange loss resulted from appreciation of RMB against USD and HKD for the three months ended 30 September 2010; and (ii) the contribution of continuing actions taken on cost control.

Besides that, the Group re-allocated the resources to develop the integrated application development and other new business divisions. As at 30 September 2010, the total number of staff in the integrated application development and other new business divisions was 69, which has increased, as compared with the number of staff as at 30 September 2009. The total administrative expenses of integrated application development and other new business divisions for the three months ended 30 September 2010 and 30 September 2009 were approximately RMB1.0 million and approximately RMB0.6 million, respectively.

### **Development costs**

Development costs decreased by approximately 33.4% to approximately RMB37.0 million for the three months ended 30 September 2010 as compared with the three months ended 30 September 2009. The number of staff in our development team decreased from 1,951 as at 30 September 2009 to 1,363 as at 30 September 2010. The decrease in the amount of development costs was caused by (i) the decline in headcount as a result of implementation of talent optimization project as mentioned in the section of “Corporate Culture and Social Responsibilities” of the 2009 annual report and the effect of which has been reflected during the period under review; (ii) the decrease in co-operation with outside service companies for design and development; and (iii) the positive result from continuing actions taken on cost control.

Despite, the Group re-allocated the resources to develop the mobile internet business and integrated application development. As at 30 September 2010, the total number of staff in the mobile internet business and integrated application development was 111, which has decreased, as compared with the number of staff as at 30 September 2009. The total development costs of mobile internet business and integrated application development for the three months ended 30 September 2010 and 30 September 2009 were approximately RMB4.8 million and approximately RMB4.7 million, respectively.

### **Other expenses**

Other expenses for the three months ended 30 September 2010 were approximately RMB1.4 million, which represented an increase of approximately 670.9% as compared with the three months ended 30 September 2009. The increase in the amounts of other expenses was mainly caused by increased amortization of intangible assets.

## Taxation

Taxation for the three months ended 30 September 2010 dropped by approximately 29.9% as compared with the three months ended 30 September 2009.

## Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 September 2010 was approximately RMB2.9 million, representing a decrease of approximately RMB16.4 million as compared with approximately RMB19.3 million for the three months ended 30 September 2009.

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2010, we had bank deposits, bank balances and cash of approximately RMB1,188.0 million as compared with approximately RMB1,257.0 million as at 31 December 2009.

As at 30 September 2010, the Group had net current assets of approximately RMB1,185.9 million as compared with approximately RMB1,271.7 million as at 31 December 2009.

## STAFF INFORMATION

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

	<b>At 30 September 2010</b>	At 30 June 2010	At 30 September 2009
Research and development	<b>1,363</b>	1,449	1,951
Operation and marketing	<b>535</b>	525	631
Accounting, finance and general administration	<u><b>379</b></u>	<u>372</u>	<u>509</u>
Total	<u><u><b>2,277</b></u></u>	<u><u>2,346</u></u>	<u><u>3,091</u></u>

As at 30 September 2010, we had a total of 2,277 employees (30 June 2010 and 30 September 2009: 2,346 and 3,091, respectively), 920 of which are game developers of the research and development department, representing approximately 40.4% of the total number of staff.

The number of employees of mobile internet business as at 30 September 2010 under research and development was 20 (30 June 2010 and 30 September 2009: 26 and 28, respectively); and the number of employees of integrated application development as at 30 September 2010 was 91 (30 June 2010 and 30 September 2009: 119 and 171, respectively).

The number of employees of mobile internet business as at 30 September 2010 under operation and marketing was 159 (30 June 2010 and 30 September 2009: 136 and 203, respectively).

The number of employees of integrated application development as at 30 September 2010 under accounting, finance and general administration was 9 (30 June 2010 and 30 September 2009: Nil); and the number of employees of other new business divisions as at 30 September 2010 was 60 (30 June 2010 and 30 September 2009: 51 and 51, respectively).

After three years' expansion of the Group, we have slowed down the recruitment by the implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report, which can be shown from the headcounts as of 30 September 2009, 30 June 2010 and 30 September 2010.

On the other hand, the Group still 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**

Over the past decade, the Group has witnessed the blossoming of PRC online game industry after the 10th anniversary celebration since its birth and has positioned itself as a leader to be reckoned with.

As one of the leading innovators and creative forces 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.

### ***ONLINE GAME BUSINESS***

#### ***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.

#### ***CJ7 Online***

CJ7 Online, a Q-style turn-based MMORPG, entered open beta test in July 2010. CJ7 Online involved the participation of Mr. Stephen Chow (“Mr. Chow”) in game planning and design, and adapts the storyline of Mr. Chow’s most recent movie “CJ7”. The game was launched in coordination with the release of Mr. Chow’s animated feature titled “CJ7: The Carton”. In addition, CJ7 Online embodies the “Green and Environment-Friendly” spirit encouraged by China’s Ministry of Culture.

#### ***Development and licensing of existing games***

During the period under review, the Group has continued to launch expansion packs in different languages that offer additional in-game items and premium features to bolster the popularity of its online games. We launched a new Chinese expansion pack “Star Fleets” for Zero Online in February 2010 and its English version in May 2010. We further launched Chinese, English, French, Spanish and Arabia versions expansion pack “Legend Returns” for Conquer Online in the second quarter of 2010. The Group also launched the Portuguese and Malaysian version of expansion pack “Divine Path” for Eudemons Online in April 2010 and July 2010. Another expansion pack for Eudemons Online “Demon Rising” was launched its Traditional Chinese version in August 2010.

Meanwhile, the Group launched “The Awakening of Justice”, the first expansion pack for Disney Fantasy Online in September 2010.

Besides that, the Group continues to launch upgraded packs for its online games on a weekly basis which help to sustain interest in the games among online players.

The Group operated its owned titles in overseas markets for years. 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 made further inroads into the Taiwan, Hong Kong and Macao after licensed Conquer Online, Eudemons Online and Zero Online. During the period under review, we commenced the open beta testing for the Traditional Chinese version of Way of the Five, which was licensed to a Taiwan-based co-operation partner, Lager Network Technologies Inc., in January 2010. We also commenced the operations of Eudemons Online in Vietnam in Vietnam version in June 2010.

### *Games in the pipeline*

The Group always 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 the past years, members of the Group entered into several co-operative arrangements with Disney Online and Electronic Arts Inc. (“EA”), respectively.

We were entered into cooperation with Disney Online to develop Disney Fantasy Online in 2008. In May 2010, we were entered into a promotional agreement with a famous female artist, Miss Chris Lee (李宇春小姐) to act as the ambassador of Disney Fantasy Online in PRC region.

The Group also entered into cooperative agreements with EA for the developments of its first 3D MMORPG Dungeon Keeper Online and new version of MMORPG Ultima Online.

In May 2010, the Group entered a brand licensing agreement with Hasbro, Inc. (“Hasbro”), a worldwide leader in children’s and family leisure time products and services, for the exclusive rights to develop and publish in Asia, Russia/CIS and MENA an MMORPG based on Hasbro’s iconic TRANSFORMERS brand. The action-oriented PC online game “TRANSFORMERS Online” is expected to officially roll-out in 2011 in PRC as well as other selected markets in Asia, MENA and Russia/CIS.

The partnership with these internationally renowned corporations is the 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 30 September 2010, the Group's overall staff headcount was 2,277, of which 920 were members of the online game development team. The structure was designed to expand and diversify game offerings, while extending the market reach of the Group's product portfolio and further leveraging the inherent advantages of vertical integration as a leading developer and operator of online games. The Group's game development team has gathered expertise in programming, design and graphics, which supports our frequent game upgrades and updates to accommodate the latest player preferences and satisfy emerging market trends.

## ***MOBILE INTERNET BUSINESS***

### ***Development of business***

The mobile internet business (which is formerly known as "mobile software applications business") is one of our businesses with greatest development potential. Focusing on the development and operation of the mobile internet access, the project allowed us to become a pioneer in the mobile internet access industry in the PRC. The business demonstrates the "innovative" culture of the Group and is in the leading position of the industry. It committed to providing mature mobile internet services for smart phone users worldwide with "sincerity". Currently, the mobile internet business has launched a series of mobile internet products, namely 91 PC Suite\* ("91手機助手"), 91 Panda Reader\* ("91熊貓看書"), 91 Farm\* ("91農場"), 91 Toolbox\* ("91百寶箱"), 91 Pasture\* ("91牧場"), 91 Fishery\* ("91漁場"), Dragon Defense Online\* ("龍御Online"), 91 Show\* ("91秀"), 91 Panda Desktop\* ("91熊貓桌面") and 91 Audio\* ("91影音"), serving a wide range of smart phone platforms. In addition, the Group also owns two key smart phone services websites, namely 91 Mobile Entertainment Platform\* ("91手機娛樂門戶") (sj.91.com) and HIAPK\* ("安卓網") (www.hiapk.com).

### ***Enhancement of R&D capabilities***

The Group continues to develop mobile applications with which the Group is targeting emerging smart-phone users in the PRC and it contributes an important part of our mobile internet business. As of 30 September 2010, the Group had 179

\* For identification purpose only.



members being employed for the mobile internet business, of which 20 were members of the mobile internet development team. It demonstrated strong development strength and operational capabilities in a variety of mobile phone platforms.

## **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.

### ***ONLINE GAME BUSINESS***

#### ***MMORPGs***

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 Dungeon Keeper Online, new version of Ultima Online, etc..

#### ***Other Online Games***

In addition to the above-mentioned MMORPGs, the Group has also researched and developed different types of games, which include (i) action role playing games ("ARPG"); (ii) first-person shooting games ("FPS"); and (iii) action games ("ACT"). The Group is undergoing research and development for several games, which are Legend of the Dark\* ("暗夜傳說"), Doomsday\* ("末日危機"), Stock Tycoon\* ("股市大亨") and Cross Gate\* ("時空之門") and are expected to be launched to the market next year.

### ***MOBILE INTERNET BUSINESS***

The 91 mobile phone platform will become an internet entertainment hub for mobile phone. Through the sustainable and speedy growth of users of self-developed products, the platform will become the largest mobile sharing community in the PRC. In addition, the mobile online game platform will be enhanced, so as to become the leading mobile game media in the PRC. The Group will continue to develop a new mobile internet operation model with communication operators.

\* For identification purpose only.



## ***PROJECT IN THE HAIXI ANIMATION CREATIVITY CITY (THE “PROJECT”)***

The Group has actively participated in the Project, a major development project for the construction of Haixi district implemented by the PRC government and arranged by the government of the Changle City of Fuzhou in Fujian Province, during the past months.

On 26 February 2010, the Group acquired a parcel of land (the “Owned Land”) from 福建省長樂市國土資源局 (The State Land Resource Bureau of Changle City, Fujian Province) through a tender process.

In April 2010, the Group acquired the prepaid lease payments and other assets and liabilities, including the buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC (the “Property”) held by Fujian TianDi, through the acquisition of Fujian TianDi’s entire registered capital. The transaction was completed on 21 June 2010. Details of the acquisition have been set forth in the circular of the Company dated 19 May 2010.

As at 30 September 2010, the Group had capital commitments in relation to the development of the Project of approximately RMB76.8 million, in which the Group had settled approximately RMB38.3 million.

On 25 October 2010, the Group entered into two construction contracts (the Construction Contracts”) for the first and second instalments of the construction of the TQ Building on the Property and the Owned Land as stated in the announcement of the Company on the same date. Having considered the Construction Contracts, the Group has total capital commitments in relation to the development of the Project of approximately RMB200.6 million as at the date of this announcement.

As at the date of this announcement, the Group does not acquire any land in the adjacent area of the Property and the Owned Land, except for the acquisitions of the Property and the Owned Land as stated in the said announcements and circular. However, we have the intention to make further acquisition of land and construction projects on the Property, the Owned Land and new acquired land (if any) in the future for implementation of the Group’s participation in the Project.

## ***OTHER EVENTS***

The Group started the talent optimization project from the end of 2009 and its objectives are to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff. We had successfully enhanced the mobility of staff and maintained the momentum of the Group. This project also lowered the labour cost as shown in the result of the nine months ended 30 September 2010 and further stimulated staff spirit and sense of responsibility.

To cope with the path of strengthening of the development process, the Group 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 operation, project management and office administrative processes.

Pursuant to the notice issued by the PRC Ministry of Finance and the State Administration of Taxation (中國財政部國家稅務總局) (Guo Shui Han 2010 No.157) dated 21 April 2010, there may be impacts to the applicable EIT rate of Fujian TQ Digital Inc. for the two years ended 31 December 2008 and 2009. The Group is currently negotiating with the Fujian State Tax Bureau to assess the impacts. As at the date of this announcement, the impacts cannot be ascertained.

Save as those disclosed hereof, no other matters have changed materially from the information disclosed in the Group's 2009 annual report.

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

As at 30 September 2010, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

<b>Name of Director</b>	<b>Name of company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or amount of registered capital contributed</b>	<b>Approximate percentage of shareholding</b>
			<i>(Note 1)</i>	
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	273,458,220(L)	51.73%

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or registered capital contributed amount of (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 3)	Fujian NetDragon Websoft Co., Ltd. (“NetDragon (Fujian)”)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian (Note 3)	Shanghai Tiankun Digital Technology Ltd. (“NetDragon (Shanghai)”)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan (Note 2)	The Company	Beneficial owner and through controlled corporations	273,258,220(L)	51.69%
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	271,858,220(L)	51.43%
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	Beneficial owner and through a controlled corporation	14,500,000(L)	2.74%
Chao Guowei, Charles	The Company	Beneficial owner	98,510(L)	0.01%
Lee Kwan Hung	The Company	Beneficial owner	98,510(L)	0.01%
Liu Sai Keung, Thomas	The Company	Beneficial owner	98,510(L)	0.01%

Notes:

1. The letter “L” denotes the shareholder’s long position in the shares, underlying shares and 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 5.19%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.23% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who 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 51.43% 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.. On 7 December 2009, the Company awarded 1,600,000 shares and 1,400,000 shares of the Company to Liu Dejian and Liu Luyuan, respectively.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).
4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.44% of the issued share capital of the Company. Chen Hongzhan had been awarded 1,600,000 shares of the Company on 7 December 2009, which represent 0.30% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.74% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited.

Save as disclosed above, to the best knowledge of the Directors, as at 30 September 2010, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as is known to the Directors, as at 30 September 2010, 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	27,482,400(L)	5.19%
Eagle World International Inc. (Note 2)	The Company	Beneficial owner	32,952,920(L)	6.23%
Flowson Company Limited (Note 2)	The Company	Through a controlled corporation	32,952,920(L)	6.23%
IDG Group (Note 3)	The Company	Beneficial owner	78,333,320(L)	14.83%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

*Notes:*

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

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

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 September 2010.

## **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 during the nine months ended 30 September 2010 under the Main Board Share Option Scheme.

## **SHARE AWARD SCHEME**

On 2 September 2008 (the “Adoption Date”), the Board approved and adopted the share award scheme (the “Share Award Scheme”) in which selected employees of the Group are entitled to participate. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board under the Share Award Scheme (but not counting any which have lapsed or have been forfeited) representing in aggregate over 10% of the issued capital of the Company as at the date of such grant.

Pursuant to the rules of the Share Award Scheme, the Group has signed an agreement with Bank of Communications Trustee Limited (the “Trustee”), for the purpose of administering the Share Award Scheme and holding the awarded shares before they are vested.

As at 30 September 2010, 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.

## **COMPETITION AND CONFLICT OF INTERESTS**

None of the Directors or any of their respective associates (as defined under the Listing Rules) has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this announcement.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the nine months ended 30 September 2010.



## **AUDIT COMMITTEE**

In compliance with Rules 3.21 and 3.22 of the Listing Rules, the Company established the Audit Committee with written terms of reference. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems of the Group. The Audit Committee comprises three members, Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas 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 three months and nine months ended 30 September 2010 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the nine months ended 30 September 2010, 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, 23 November 2010

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