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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)**

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The board (the "Board") of directors (the "Director(s)") of NetDragon Websoft Inc. (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010.

## RESULTS

The Group's audited profit attributable to the owners of the Company for the year ended 31 December 2010 was approximately RMB34.9 million, representing a decrease of approximately 59.9% compared with that of the year ended 31 December 2009. Basic and diluted earnings per share for the year ended 31 December 2010 were approximately RMB6.64 cents and RMB6.64 cents, respectively.

## DIVIDENDS

The Board has recommended the payment of a final dividend of HKD0.02 per share for the year ended 31 December 2010 (year ended 31 December 2009: HKD0.05 per share), subject to the approval of the shareholders at the forthcoming annual general meeting (the "AGM") of the Company to be held on 20 May 2011. Such proposed dividends if approved by the shareholders at the AGM, will be paid on or around 24 May 2011 to shareholders whose names appear on the register of members of the Company on 16 May 2011.

## RESULTS

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2010 together with the comparative figures in 2009 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

| | *NOTES* | **2010** *RMB'000* | 2009 *RMB'000* |
|---|---|---|---|
| **Revenue** | 4 | **531,772** | 621,836 |
| Cost of revenue | | **(66,333)** | (84,325) |
| Gross profit | | **465,439** | 537,511 |
| Other income and gains | 4 | **60,864** | 57,807 |
| Selling and marketing expenses | | **(101,993)** | (133,460) |
| Administrative expenses | | **(182,022)** | (163,926) |
| Development costs | | **(162,234)** | (201,461) |
| Other expenses | | **(10,392)** | (1,959) |
| 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 | | **—** | (724) |
| **Profit before taxation** | | **69,662** | 97,005 |
| Taxation | 6 | **(34,769)** | (10,381) |
| **Profit for the year** | 7 | **34,893** | 86,624 |
| Other comprehensive income (expense): | | | |
| Exchange differences arising on translation of foreign operations | | **(172)** | (784) |
| Gain on revaluation of property | | **673** | — |
| | | **501** | (784) |
| Total comprehensive income for the year | | **35,394** | 85,840 |

| | NOTE | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Profit for the year attributable to: | | | |
| - Owners of the Company | | **34,949** | 87,108 |
| - Non-controlling interests | | **(56)** | (484) |
| | | **34,893** | 86,624 |
| Total comprehensive income attributable to: | | | |
| - Owners of the Company | | **35,450** | 86,324 |
| - Non-controlling interests | | **(56)** | (484) |
| | | **35,394** | 85,840 |
| | | ***RMB cents*** | *RMB cents* |
| **Earnings per share** | 11 | | |
| - Basic | | **6.64** | 16.57 |
| - Diluted | | **6.64** | 16.56 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2010**

| | *NOTES* | **2010** *RMB'000* | 2009 *RMB'000* (Restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **128,534** | 138,011 |
| Prepaid lease payments | 8 | **87,753** | 12,917 |
| Investment property | | **14,551** | — |
| Deposit paid for acquisition of property, plant and equipment | | **19,050** | 8,895 |
| Intangible assets | | **13,136** | 12,980 |
| Interests in jointly controlled entities | 9 | **—** | — |
| Available-for-sale investments | | **4,000** | 4,000 |
| Loan receivables | | **5,819** | 7,313 |
| Deferred tax assets | | **54** | 54 |
| | | **272,897** | 184,170 |
| **Current assets** | | | |
| Prepaid lease payments | 8 | **1,784** | 228 |
| Loan receivables | | **893** | 893 |
| Trade receivables | 12 | **24,393** | 14,128 |
| Other receivables, prepayments and deposits | | **40,072** | 66,272 |
| Held for trading investments | | **1,079** | 377 |
| Advance to a jointly controlled entity | 13 | **—** | 29,000 |
| Amount due from a related company | | **171** | — |
| Tax recoverable | | **—** | 20 |
| Bank deposits | | **340,828** | 551,970 |
| Bank balances and cash | | **877,823** | 705,053 |
| | | **1,287,043** | 1,367,941 |
| **Current liabilities** | | | |
| Trade payables | 14 | **519** | 285 |
| Other payables and accruals | | **58,218** | 67,881 |
| Deferred income | | **23,119** | 18,189 |
| Amount due to a shareholder | | **5,328** | — |
| Income tax payable | | **21,599** | 9,935 |
| | | **108,783** | 96,290 |
| **Net current assets** | | **1,178,260** | 1,271,651 |
| | | **1,451,157** | 1,455,821 |
| **Capital and reserves** | | | |
| Share capital | | **39,264** | 39,264 |
| Share premium and reserves | | **1,412,433** | 1,417,041 |
| Equity attributable to owners of the Company | | **1,451,697** | 1,456,305 |
| Non-controlling interests | | **(540)** | (484) |
| | | **1,451,157** | 1,455,821 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 31 DECEMBER 2010

| | Equity attributable to owners of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Capital reserve | Statutory reserves | Dividend reserve | Revaluations 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* | *RMB'000* |
| **At 1 January 2009** | 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 year | — | — | — | — | — | — | — | — | — | (784) | — | (784) | — | (784) |
| Profit (loss) for the year | — | — | — | — | — | — | — | — | — | — | 87,108 | 87,108 | (484) | 86,624 |
| Total comprehensive income (expense) for the year | — | — | — | — | — | — | — | — | — | (784) | 87,108 | 86,324 | (484) | 85,840 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | — | — | 5,660 | — | — | 5,660 | — | 5,660 |
| Final dividend for 2008 paid | — | — | — | — | — | (51,275) | — | — | — | — | — | (51,275) | — | (51,275) |
| Interim dividend for 2009 paid | — | — | — | — | — | — | — | — | — | — | (38,208) | (38,208) | — | (38,208) |
| Final dividend for 2009 proposed | — | — | — | — | — | 23,270 | — | — | — | — | (23,270) | — | — | — |
| Awarded shares vested to employees | — | — | — | — | — | — | — | 1,675 | (1,019) | — | (663) | (7) | — | (7) |
| Transfer | — | — | — | — | 16,950 | — | — | — | — | — | (16,950) | — | — | — |
| | — | — | — | — | 16,950 | (28,005) | — | 1,675 | 4,641 | — | (79,091) | (83,830) | — | (83,830) |
| **At 31 December 2009** | 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 income (expense) for the year | — | — | — | — | — | — | 673 | — | — | (172) | — | 501 | — | 501 |
| Profit (loss) for the year | — | — | — | — | — | — | — | — | — | — | 34,949 | 34,949 | (56) | 34,893 |
| Total comprehensive income (expense) for the year | — | — | — | — | — | — | 673 | — | — | (172) | 34,949 | 35,450 | (56) | 35,394 |
| Recognition of equity-settled share-based payments | — | — | — | — | — | — | — | — | 6,268 | — | — | 6,268 | — | 6,268 |
| Final dividend for 2009 paid | — | — | — | — | — | (23,270) | — | — | — | — | — | (23,270) | — | (23,270) |
| Interim dividend for 2010 paid | — | — | — | — | — | — | — | — | — | — | (23,056) | (23,056) | — | (23,056) |
| Final dividend for 2010 proposed | — | — | — | — | — | 8,994 | — | — | — | — | (8,994) | — | — | — |
| Awarded shares vested to employees | — | — | — | — | — | — | — | 2,263 | (1,370) | — | (893) | — | — | — |
| Transfer | — | — | — | — | 6,697 | — | — | — | — | — | (6,697) | — | — | — |
| | — | — | — | — | 6,697 | (14,276) | — | 2,263 | 4,898 | — | (39,640) | (40,058) | — | (40,058) |
| **At 31 December 2010** | 39,264 | 1,157,364 | 1,963 | 9,946 | 121,339 | 8,994 | 673 | (8,494) | 9,539 | (56,663) | 167,772 | 1,451,697 | (540) | 1,451,157 |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER 2010**

| | NOTE | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| NET CASH FROM OPERATING ACTIVITIES | | **104,545** | 179,860 |
| INVESTING ACTIVITIES: | | | |
| Acquisition of assets through acquisition of a subsidiary | 15 | **(58,149)** | — |
| Proceeds from disposal of interests in jointly controlled entities | | **4,000** | — |
| Other investing cash flows | | **162,188** | 283,440 |
| NET CASH FROM INVESTING ACTIVITIES | | **108,039** | 283,440 |
| FINANCING ACTIVITIES: | | | |
| Dividends paid | | **(46,326)** | (89,483) |
| Advance from a shareholder | | **5,328** | — |
| NET CASH USED IN FINANCING ACTIVITIES | | **(40,998)** | (89,483) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **171,586** | 373,817 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **705,053** | 332,009 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **1,184** | (773) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | | **877,823** | 705,053 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 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, Shun Tak Centre, West Tower, 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.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

## 3. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

| | |
|---|---|
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (as revised in 2008) | Business Combinations |
| HKAS 27 (as revised in 2008) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendments) | Eligible Hedged Items |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 |
| HK(IFRIC) - INT 17 | Distributions of Non-cash Assets to Owners |
| HK(IFRIC) - INT 5 | Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

Except as described below, the application of new and revised HKFRSs in current year has had no material effect on the amounts reported in the consolidated financial statements of the Group and/or disclosures set out in the consolidated financial statements.

**Amendments 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 amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold lands that qualify for 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 carrying amount of approximately RMB28,785,000 as at 31 December 2009 being reclassified to property, plant and equipment.

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:

| | **As at 31 December 2009 (Originally stated)** | **Adjustments** | **As at 31 December 2009 (Restated)** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| 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 | 855 | (627) | 228 |
| Total effect on net assets | 151,156 | — | 151,156 |

The application of HKAS 17 does not have effect on the financial position of the Group as at 1 January 2009 as the leasehold land was acquired in 2009.

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010[1] |
| HKFRS 7 (Amendments) | Disclosures - Transfers of Financial Assets[3] |
| HKFRS 9 | Financial Instruments[4] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[5] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 32 (Amendments) | Classification of Rights Issues[7] |
| HK (IFRIC) - INT 14 (Amendments) | Prepayments of a Minimum Funding Requirement[6] |
| HK (IFRIC) - INT 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate

[2] Effective for annual periods beginning on or after 1 July 2010

[3] Effective for annual periods beginning on or after 1 July 2011

[4] Effective for annual periods beginning on or after 1 January 2013

[5] Effective for annual periods beginning on or after 1 January 2012

[6] Effective for annual periods beginning on or after 1 January 2011

[7] Effective for annual periods beginning on or after 1 February 2010

* IFRIC represents the International Financial Reporting Interpretations Committee

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss. HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The Directors do not anticipate that the application of the amendments to HKAS 12 will have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

HK (IFRIC) - INT 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK (IFRIC) - INT 19 will affect the required accounting. In particular, under HK (IFRIC) - INT 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

## 4. REVENUE, OTHER INCOME AND GAINS

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Online game revenue | **531,772** | 621,836 |
| **Other income and gains** | | |
| Advertising income | **293** | 1,522 |
| Business tax refunded *(Note a)* | **—** | 27,099 |
| Gain on fair value changes of investment property | **3,573** | — |
| Gain on disposal of jointly controlled entities | **4,000** | — |
| Government grants *(Note b)* | **26,759** | 10,039 |
| Interest income | **12,344** | 14,578 |
| Mobile Internet business income | **6,656** | — |
| Net gain on held for trading investments | **4,655** | 3,113 |
| Rental income, net of RMB1,000 outgoings (2009: Nil) | **96** | — |
| Others | **2,488** | 1,456 |
| | **60,864** | 57,807 |

*Notes:*

a. For the year ended 31 December 2008, Fujian TQ Digital Inc. ("TQ Digital"), a subsidiary of the Company, paid business tax in respect of technology transfer income ("技術轉讓收入") to the People's Republic of China (the "PRC") tax authority. Pursuant to a tax document (Cai Shui Zi [1999] No. 273), technology transfer income is exempted from business tax. Therefore, TQ Digital has applied for the tax refund and also obtained the tax approval for the refund of business tax in 2009. Based on the tax document, TQ Digital is not required to pay any business tax in respect of the technology transfer income since 2009.

b. Government grants were received from the government of the PRC mainly 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

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

There is only one business component in the internal reporting to the CODM, being 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:

| | **2010** *RMB'000* | 2009 *RMB'000* |
|---|---|---|
| Segment revenue | **531,772** | 621,836 |
| Segment profit | **124,515** | 137,006 |
| Unallocated income and gains | **27,622** | 20,669 |
| 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 | **(82,475)** | (63,163) |
| Share of losses of jointly controlled entities | **—** | (724) |
| Profit before taxation | **69,662** | 97,005 |

The accounting policies of the operating segment are the same as the Group's accounting policies. 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 reportable 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:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Operating segment assets | **1,287,465** | 1,093,510 |
| Unallocated | **272,475** | 458,601 |
| | **1,559,940** | 1,552,111 |

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segment other than those assets are managed on group basis, such as interests in jointly controlled entities, available-for-sale investments, loan receivables, advance to a jointly controlled entity, tax recoverable and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

**Geographical information**

The Group's operations are mainly located in the PRC.

The Group's revenue from external customers by geographical locations of customers are detailed below:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| PRC | **414,003** | 483,919 |
| United States of America ("USA") | **113,643** | 131,982 |
| Unallocated | **4,126** | 5,935 |
| | **531,772** | 621,836 |

The Group's non-current assets, excluding available-for-sale investments, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| PRC | **219,082** | 131,970 |
| Hong Kong | **43,919** | 40,795 |
| USA | **23** | 38 |
| | **263,024** | 172,803 |

No external customers of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2010 and 2009.

## 6. TAXATION

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The charge comprises: | | |
| Hong Kong Profits Tax | **1,649** | — |
| The PRC Enterprise Income Tax ("EIT") | | |
| - Current year | **9,218** | 10,090 |
| - Withholding tax | **3,591** | — |
| - Attributable to change in concessionary rates for technical service income | **20,082** | — |
| | **32,891** | 10,090 |
| Taxation in other jurisdiction | **229** | 291 |
| | **34,769** | 10,381 |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the year ended 31 December 2010. No provision for Hong Kong Profits Tax had been made for the year ended 31 December 2009 as the Group's income neither arises in, nor is derived from, Hong Kong.

The PRC EIT is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

TQ Digital is a wholly foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 10 September 2009. Pursuant to the Circular on Some Preferential Policies for the EIT (關於實施高新技術企業所得稅優惠有關問題的通知) issued by the State Administration of Taxation ("SAT") (國家稅務總局) on 22 April 2009, TQ Digital is entitled to 50% tax reduction on a preferential income tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years and TQ Digital continued to be recognised as a hi-tech enterprise for the years ended 31 December 2010 and 2009.

On 21 April 2010, the SAT clarified that entity approved to be a hi-tech enterprise should apply the 50% tax reduction for the technical service income on the statutory tax rate of 25% with retrospective effect from 1 January 2008 onwards. The management of TQ Digital has been engaged in negotiations with the provincial government and tax bureau and the Fujian Provincial State Tax Bureau (福建省國家稅務局) has agreed in principle to observe the practice of other locations at that time and to defer to draw a conclusion, until the end of the year 2010, as to whether it should implement the said classification from SAT immediately. In December 2010, the Fujian Provincial State Tax Bureau (福建省國家稅務局) finally decided to implement such a circular. Hence, the tax rate for the technical service income has been increased from 7.5% to 12.5% and applied retrospective from 1 January 2008. The tax effect of changes in tax rate for the years ended 31 December 2008 and 2009 was approximately RMB20,082,000.

Under the Law of People's Republic of China on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") is 25% from 1 January 2008 onwards.

Shanghai Tiankun Digital Technology Ltd. ("NetDragon (Shanghai)") was approved to be a hi-tech enterprise in 2009 and has obtained the approval to enjoy 50% reduction in EIT rate for the period from 1 January 2009 to 31 December 2011. Thus, NetDragon (Shanghai) was entitled to pay EIT at the reduced tax rate of 12.5% for the year ended 31 December 2010 (2009: 12.5%).

Pursuant to the relevant laws and regulations in the PRC, Fujian TQ Online Interactive Inc. ("TQ Online") is exempted from the PRC EIT for two years starting from its first profit making year, followed by a 50% reduction for the next three years. No provision for the PRC EIT has been made in the financial statements of TQ Online as TQ Online was exempted from the PRC EIT during the years ended 31 December 2010 and 2009.

For the year ended 31 December 2010, the USA income tax rates applicable to NetDragon Websoft Inc. are 34% (2009: 34%) for federal income tax and 8.84% (2009: 8.84%) for state income tax.

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

The tax charge for the year is reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **69,662** | 97,005 |
| Tax at the applicable tax rate of 25% (2009: 25%) *(Note a)* | **17,416** | 24,251 |
| Tax effect of share of losses of jointly controlled entities | **—** | 181 |
| Tax effect of income not taxable for tax purpose | **(156)** | (308) |
| Tax effect of expenses not deductible for tax purpose | **9,903** | 8,309 |
| Tax effect of tax losses not recognised | **6,546** | 20,439 |
| Utilisation of tax losses previously not recognised | **(2,747)** | (210) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(829)** | 74 |
| Additional tax benefit on research and development expenses *(Note b)* | **(7,612)** | (25,645) |
| Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries | **(11,377)** | (16,642) |
| Withholding tax on undistributed earning of the PRC subsidiary | **3,591** | — |
| Tax effect of change in concessionary rates applied retrospectively | **20,082** | — |
| Others | **(48)** | (68) |
| Tax charge for the year | **34,769** | 10,381 |

*Notes:*

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2010 and 2009.

b. Pursuant to the relevant tax rules and regulations, the Group can obtain additional tax benefit, which is equivalent to 50% of the salary and depreciation under development costs incurred for the development of new games and advanced technology development.

## 7. PROFIT FOR THE YEAR

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Profit for the year has been arrived at after charging: | | |
| Staff costs: | | |
| Directors' emoluments | **6,377** | 5,111 |
| Other staff costs | | |
| Salaries and other benefits | **224,018** | 246,030 |
| Contributions to retirement benefits schemes | **17,545** | 14,571 |
| Share-based payments expense | **2,187** | 2,466 |
| | **250,127** | 268,178 |
| Auditor's remuneration | | |
| - audit services | **611** | 555 |
| - non-audit services | **906** | 908 |
| | **1,517** | 1,463 |
| Allowances on trade receivables | **16** | 295 |
| Amortisation of intangible assets (included in cost of revenue) | **4,818** | 4,002 |
| Amortisation of intangible assets (included in other expenses) | **2,038** | 1,046 |
| Release of prepaid lease payments (included in administrative expenses) | **566** | 206 |
| Depreciation of property, plant and equipment | **51,447** | 49,419 |
| Operating lease rentals in respect of | | |
| - rented premises | **22,020** | 14,624 |
| - computer equipment | **36,359** | 47,791 |
| Net foreign exchange loss | **14,438** | 1,302 |
| Loss on disposal of property, plant and equipment | **366** | 13 |

## 8. PREPAID LEASE PAYMENTS

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Analysed for reporting purposes as: | | |
| Current assets | **1,784** | 228 |
| Non-current assets | **87,753** | 12,917 |
| | **89,537** | 13,145 |

The Group's prepaid lease payments are located in the PRC, which are held under medium-term lease.

## 9. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Unlisted investments outside Hong Kong: | | |
| Cost of investments | **—** | 1,000 |
| Share of post-acquisition losses | **—** | (1,000) |
| | **—** | — |
| Share of net assets — unlisted | **—** | — |

As at 31 March 2010, the Group had interests in the following jointly controlled entities:

| Name of entities | Percentage of registered capital directly held by the Group | Country of establishment/ operation | Registered capital | Principal activity |
|---|---|---|---|---|
| 上海晶茂文化傳播有限公司 (Shanghai Jingmao Film Media Ltd.)* | 50% | PRC | RMB1,000,000 | Provision for film marketing and research services |
| 上海合進數據信息諮詢有限公司 (Shanghai Hejin Data Information Co., Ltd.)* | 50% | PRC | RMB1,000,000 | Provision for data collection services of film advertisement |

The summarised financial information in respect of the Group's jointly controlled entities is set out below:

| | At 31 March 2010 *RMB'000* | At 31 December 2009 *RMB'000* |
|---|---|---|
| Total assets | 23,526 | 26,662 |
| Total liabilities | (52,583) | (47,334) |
| Net liabilities | (29,057) | (20,672) |
| Group's share of net liabilities of jointly controlled entities | — | — |

* *For identification purpose only*

| | Three months ended 31 March 2010 *RMB'000* | Year ended 31 December 2009 *RMB'000* |
|---|---|---|
| Revenue | 17,744 | 36,460 |
| Loss for the period/year | (8,385) | (22,121) |

The Group has discontinued recognition of its share of losses of both jointly controlled entities. The amounts of unrecognised share of losses of jointly controlled entities, extracted from the latest relevant management accounts of jointly controlled entities, both for the year and cumulatively, are as follows:

| | At 31 March 2010 *RMB'000* | At 31 December 2009 *RMB'000* |
|---|---|---|
| Unrecognised share of losses of jointly controlled entities for the period/year | 4,192 | 10,336 |
| Accumulated unrecognised share of losses of jointly controlled entities | 14,528 | 10,336 |

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 consolidated statement of comprehensive income, calculations as follows:

| | *RMB'000* |
|---|---|
| Proceeds on disposal | 4,000 |
| Less: carrying amount of interests in jointly controlled entities on the date of disposal | — |
| Gain recognised | 4,000 |

## 10. DIVIDENDS

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends recognised as distribution during the year: | | |
| 2010 Interim - HKD0.05 (2009: 2009 Interim dividend of HKD0.082) per share | **23,056** | 38,208 |
| 2009 Final - HKD0.05 (2009: 2008 Final dividend of HKD0.11) per share | **23,270** | 51,275 |
| | **46,326** | 89,483 |

The final dividend of HKD0.02 (2009: HKD0.05) per share has been proposed by the Directors and is subject to approval by the shareholders in the AGM, amounting to approximately RMB8,994,000 (2009: RMB23,270,000).

## 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:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Earnings for the purposes of basic and diluted earnings per share | **34,949** | 87,108 |

| | **Number of shares** | |
|---|---|---|
| | **2010** | 2009 |
| | ***'000*** | *'000* |
| Weighted average number of shares for the purpose of basic earnings per share | **526,675** | 525,791 |
| Effect of dilutive potential shares from the Company's share option scheme | **—** | 36 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | **526,675** | 525,827 |

The weighted average number of shares shown above has been arrived at after deducting the weighted average effect of 1,895,742 shares (2009: 2,420,336 shares) held by the Company's share award scheme.

The presentation of diluted earnings per share for the year ended 31 December 2010 had not taken into the effect of potential shares under share award scheme and share option scheme because the exercise price of the Company's shares under share award scheme and share option scheme was higher than the average market price for shares for the year ended 31 December 2010.

The presentation of diluted earnings per share for the year ended 31 December 2009 had not taken into the effect of potential shares under share award scheme because the exercise price of the Company's shares under share award scheme was higher than the average market price for shares for the year ended 31 December 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 presented based on the invoice date at the end of reporting period.

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 - 30 days | **18,250** | 11,513 |
| 31 - 60 days | **4,876** | 1,949 |
| 61 - 90 days | **1,000** | 101 |
| Over 90 days | **267** | 565 |
| | **24,393** | 14,128 |

## 13. ADVANCE TO A JOINTLY CONTROLLED ENTITY

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

## 14. TRADE PAYABLES

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 - 90 days | **508** | 268 |
| 91 - 180 days | **—** | 6 |
| 181 - 365 days | **—** | — |
| Over 365 days | **11** | 11 |
| | **519** | 285 |

## 15. 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**

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

**Net cash outflow arising on acquisition**

| | *RMB'000* |
|---|---|
| Consideration paid in cash | 67,704 |
| Less: cash and cash equivalent balances acquired | (9,555) |
| | 58,149 |

## 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)*:

| | For the three months ended | | | | |
|---|---|---|---|---|---|
| | **31 December 2010** | 30 September 2010 | 30 June 2010 | 31 March 2010 | 31 December 2009 |
| PCU | **542,000** | 589,000 | 449,000 | 451,000 | 492,000 |
| ACU | **232,000** | 226,000 | 217,000 | 230,000 | 253,000 |

*Note:* *As at 31 December 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 and other games.*

The PCU for online games was approximately 542,000 for the three months ended 31 December 2010, representing a decrease of approximately 8.0% from the three months ended 30 September 2010 and representing an increase of approximately 10.2% from the three months ended 31 December 2009.

We also recorded the ACU for online games of approximately 232,000 for the three months ended 31 December 2010, which represented an increase of approximately 2.7% from the three months ended 30 September 2010 and represented a decrease of approximately 8.3% from the three months ended 31 December 2009.

## FINANCIAL PERFORMANCE HIGHLIGHTS
## YEAR ENDED 31 DECEMBER 2010

The following table sets forth the comparative figures for the years ended 31 December 2010 and 2009:

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | **531,772** | 621,836 |
| Cost of revenue | **(66,333)** | (84,325) |
| Gross profit | **465,439** | 537,511 |
| Other income and gains | **60,864** | 57,807 |
| Selling and marketing expenses | **(101,993)** | (133,460) |
| Administrative expenses | **(182,022)** | (163,926) |
| Development costs | **(162,234)** | (201,461) |
| Other expenses | **(10,392)** | (1,959) |
| 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 | **—** | (724) |
| **Profit before taxation** | **69,662** | 97,005 |
| Taxation | **(34,769)** | (10,381) |
| **Profit for the year** | **34,893** | 86,624 |
| Profit for the year attributable to: | | |
| - Owners of the Company | **34,949** | 87,108 |
| - Non-controlling interests | **(56)** | (484) |
| | **34,893** | 86,624 |

**Revenue**

Revenue decreased by approximately 14.5% to approximately RMB531.8 million for the year ended 31 December 2010 from approximately RMB621.8 million for the year ended 31 December 2009.

The following table sets out the breakdown of geographical revenue of the Group for the years ended 31 December 2010 and 2009:

| | **For the year ended** | | | |
|---|---|---|---|---|
| | **31 December 2010** | | 31 December 2009 | |
| | | ***% of total*** | | *% of total* |
| | ***RMB'000*** | ***revenue*** | *RMB'000* | *revenue* |
| PRC | **414,552** | **78.0** | 483,919 | 77.8 |
| Overseas | **117,220** | **22.0** | 137,917 | 22.2 |
| | **531,772** | **100.0** | 621,836 | 100.0 |

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 year ended 31 December 2010 was approximately RMB414.6 million, representing a decrease of approximately 14.3% over the year ended 31 December 2009.

The revenue derived from overseas markets for the year ended 31 December 2010 was approximately RMB117.2 million, representing a decrease of approximately 15.0% over the year ended 31 December 2009.

**Fourth Quarter of 2010**

**Revenue**

Revenue for the fourth quarter of 2010 was approximately RMB144.0 million, representing an increase of approximately 12.3% from the third quarter of 2010 and an increase of approximately 7.3% over the same period in 2009.

**Cost of revenue**

Cost of revenue for the fourth quarter of 2010 was approximately RMB14.6 million, representing a decrease of approximately 10.7% from the third quarter of 2010 and a decrease of approximately 22.0% over the same period in 2009.

**Other income and gains**

Other income and gains of approximately RMB37.4 million were recorded for the fourth quarter of 2010, compared to other income and gains that of approximately RMB8.6 million and approximately RMB17.9 million for the third quarter of 2010 and the same period in 2009, respectively.

Moreover, the other income and gains also comprise the income contributed from mobile Internet business. To further develop our business operation, we commenced to establish the mobile Internet business in 2008. The mobile Internet business started to contribute income to the Group from early 2010. For the fourth quarter of 2010, income derived from mobile Internet business was approximately RMB4.2 million.

**Selling and marketing expenses**

Selling and marketing expenses for the fourth quarter of 2010 were approximately RMB24.3 million, representing a decrease of approximately 15.9% from the third quarter of 2010 and a decrease of approximately 30.1% over the same period in 2009.

**Administrative expenses**

Administrative expenses for the fourth quarter of 2010 were approximately RMB49.8 million, representing an increase of approximately 3.6% from the third quarter of 2010 and representing an increase of approximately 32.9% over the same period in 2009.

**Development costs**

Development costs for the fourth quarter of 2010 were approximately RMB49.9 million, representing an increase of approximately 35.0% from the third quarter of 2010 and a decrease of approximately 14.3% over the same period in 2009.

**Other expenses**

Other expenses for the fourth quarter of 2010 were approximately RMB5.6 million, representing an increase of approximately 302.3% from the third quarter of 2010 and an increase of approximately 305.8% over the same period in 2009.

**Profit for the period**

Profit for the period for the fourth quarter of 2010 was approximately RMB9.4 million, representing an increase of approximately 229.2% from the third quarter of 2010 and an increase of approximately 652.2% over the same period in 2009. As a percentage of revenue, profit for the period accounted for approximately 6.5% for the fourth quarter of 2010, compared to approximately 2.2% for the third quarter of 2010 and approximately 0.9% 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 fourth quarter of 2010 was approximately RMB9.3 million, representing an increase of approximately 221.1% from the third quarter of 2010 and an increase of approximately 551.6% over the same period in 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Fourth Quarter of 2010 Compared to Third Quarter of 2010

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

| | **Three months ended 31 December 2010** *(Unaudited)* *RMB'000* | Three months ended 30 September 2010 *(Unaudited)* *RMB'000* |
|---|---|---|
| **Revenue** | **143,957** | 128,219 |
| Cost of revenue | **(14,618)** | (16,368) |
| Gross profit | **129,339** | 111,851 |
| Other income and gains | **37,353** | 8,565 |
| Selling and marketing expenses | **(24,280)** | (28,886) |
| Administrative expenses | **(49,783)** | (48,059) |
| Development costs | **(49,891)** | (36,966) |
| Other expenses | **(5,552)** | (1,380) |
| **Profit before taxation** | **37,186** | 5,125 |
| Taxation | **(27,813)** | (2,278) |
| **Profit for the period** | **9,373** | 2,847 |
| Profit for the period attributable to: | | |
| - Owners of the Company | **9,292** | 2,894 |
| - Non-controlling interests | **81** | (47) |
| | **9,373** | 2,847 |

## FINANCIAL REVIEW

### Revenue

Our revenue for the three months ended 31 December 2010 was approximately RMB144.0 million, representing an increase of approximately 12.3% as compared to approximately RMB128.2 million for the three months ended 30 September 2010.

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

| | **Three months ended** | | | |
|---|---|---|---|---|
| | **31 December 2010** | | 30 September 2010 | |
| | ***RMB'000*** | ***% of total revenue*** | *RMB'000* | *% of total revenue* |
| PRC | **116,161** | **80.7** | 100,165 | 78.1 |
| Overseas | **27,796** | **19.3** | 28,054 | 21.9 |
| | **143,957** | **100.0** | 128,219 | 100.0 |

The revenue derived from the PRC for the three months ended 31 December 2010 was approximately RMB116.2 million, representing an increase of approximately 16.0% as compared to approximately RMB100.2 million for the three months ended 30 September 2010. The increase in revenue derived from the PRC was mainly due to the release of diversified versions of Eudemons Online, which resulted in enhance the attractiveness of the game.

The revenue derived from overseas markets for the three months ended 31 December 2010 was approximately RMB27.8 million, representing a decrease of approximately 0.9% as compared to approximately RMB28.1 million for the three months ended 30 September 2010.

### Cost of revenue

Cost of revenue for the three months ended 31 December 2010 was approximately RMB14.6 million, representing a decrease of approximately 10.7% as compared to approximately RMB16.4 million for the three months ended 30 September 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 31 December 2010 was approximately RMB129.3 million, representing an increase of approximately 15.6% as compared to approximately RMB111.9 million for the three months ended 30 September 2010.

The gross profit margin for the three months ended 31 December 2010 was approximately 89.8%, which represented an increase of approximately 2.6% as compared with the three months ended 30 September 2010.

**Other income and gains**

Other income and gains for the three months ended 31 December 2010 were approximately RMB37.4 million, representing an increase of approximately 336.1% as compared with the three months ended 30 September 2010. The increase in other income and gains was mainly caused by (i) the increase in government grants received by NetDragon (Fujian) and TQ Digital from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳); and (ii) the gain on revaluation of investment property in Hong Kong being recognised by approximately RMB3.6 million.

Moreover, the other income and gains also comprise the income contributed from mobile Internet business. To further develop our business operation, we commenced to establish the mobile Internet business in 2008. The mobile Internet business started to contribute income to the Group from early 2010. For the three months ended 31 December 2010, income derived from mobile Internet business increased by approximately 3.4 times to approximately RMB4.2 million for the three months ended 31 December 2010 from approximately RMB0.9 million for the three months ended 30 September 2010.

**Selling and marketing expenses**

Selling and marketing expenses for the three months ended 31 December 2010 were approximately RMB24.3 million, representing a decrease of approximately 15.9% as compared with the three months ended 30 September 2010. The decrease in the amount of selling and marketing expenses was mainly due to the decrease in advertising and promotion activities for Eudemons Online, Disney Fantasy Online and Tian Yuan.

The Group re-allocated the resources for the development of the mobile Internet business. As at 31 December 2010, the number of staff in the mobile Internet business was 166, which has increased by approximately 4.4%, as compared with the number of staff as at 30 September 2010. The selling and marketing expenses of mobile Internet business for the three months ended 31 December 2010 and 30 September 2010 were approximately RMB0.3 million and approximately RMB0.4 million, respectively.

**Administrative expenses**

Administrative expenses increased by approximately 3.6% to approximately RMB49.8 million for the three months ended 31 December 2010 as compared with the three months ended 30 September 2010, which was mainly due to (i) the rise in exchange loss resulted from appreciation of RMB against USD and HKD; and (ii) the increase of capital expenditure during the second half of 2010 resulted in the increase of depreciation expenses.

Besides that, the Group re-allocated the resources for the integrated application development (which was formerly known as "integrated operation model") and other new business divisions. As at 31 December 2010, the total number of staff in the integrated application development and other new business divisions was 70, which has increased by approximately 1.4%, as compared with the number of staff as at 30 September 2010. The total administrative expenses of integrated application development and other new business divisions for the three months ended 31 December 2010 and 30 September 2010 were approximately RMB1.5 million and approximately RMB1.0 million, respectively.

**Development costs**

Development costs increased by approximately 35.0% to approximately RMB49.9 million for the three months ended 31 December 2010 as compared with the three months ended 30 September 2010. The increase in the amount of development costs was mainly caused by the performance rewards being given to staff with outstanding performance increased.

Despite, the Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 December 2010, the total number of staff in the mobile Internet business and integrated application development was 111, which has maintained at a steady level, as compared with the number of staff as at 30 September 2010. The total development costs of mobile Internet business and integrated application development for the three months ended 31 December 2010 and 30 September 2010 were approximately RMB6.0 million and approximately RMB4.8 million, respectively.

**Other expenses**

Other expenses for the three months ended 31 December 2010 were approximately RMB5.6 million. The increase as compared with the three months ended 30 September 2010 was caused by a donation of approximately RMB2.5 million to the Fujian Haixi Youth Business Foundation* (福建海西青年創業基金會).

**Taxation**

Taxation for the three months ended 31 December 2010 was approximately RMB27.8 million, which raised by approximately 1,120.9% as compared with the three months ended 30 September 2010. The increase as compared with the three months ended 30 September 2010 was the effect of change of tax rate for the years ended 31 December 2008 and 2009 according to a circular issued by the PRC Ministry of Finance and the SAT (中國財政部及國家稅務總局) (Guo Shui Han 2010 No.157) in April 2010.

TQ Digital was entitled to enjoy 50% tax reduction in EIT rate on the technical service income for the years ended 31 December 2008 and 2009, as mentioned in the section of "Management Discussion and Analysis" of the 2008 and 2009 annual report. The SAT clarified that the tax reduction should be based on statutory tax rate of 25% instead of the preferential income tax rate of 15% for a hi-tech enterprise. Thus, the EIT rate of TQ Digital on the technical service income has been increased from 7.5% to 12.5% with retrospectively effect from 1 January 2008 onwards. The tax effect caused by the change of tax rate for the years ended 31 December 2008 and 2009 was approximately RMB20.1 million.

**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 31 December 2010 was approximately RMB9.3 million, representing an increase of approximately RMB6.4 million as compared with approximately RMB2.9 million for the three months ended 30 September 2010.

* *For identification purpose only*

**Fourth Quarter of 2010 Compared to Fourth Quarter of 2009**

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

| | **Three months ended 31 December 2010** | Three months ended 31 December 2009 |
|---|---|---|
| | ***(Unaudited)*** | *(Unaudited)* |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | **143,957** | 134,190 |
| Cost of revenue | **(14,618)** | (18,731) |
| Gross profit | **129,339** | 115,459 |
| Other income and gains | **37,353** | 17,881 |
| Selling and marketing expenses | **(24,280)** | (34,714) |
| Administrative expenses | **(49,783)** | (37,466) |
| Development costs | **(49,891)** | (58,208) |
| Other expenses | **(5,552)** | (1,368) |
| **Profit before taxation** | **37,186** | 1,584 |
| Taxation | **(27,813)** | (338) |
| **Profit for the period** | **9,373** | 1,246 |
| Profit for the period attributable to: | | |
| - Owners of the Company | **9,292** | 1,426 |
| - Non-controlling interests | **81** | (180) |
| | **9,373** | 1,246 |

## FINANCIAL REVIEW

### Revenue

Our revenue for the three months ended 31 December 2010 was approximately RMB144.0 million, representing an increase of approximately 7.3% as compared to approximately RMB134.2 million for the three months ended 31 December 2009.

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

| | **Three months ended** | | | |
|---|---|---|---|---|
| | **31 December 2010** | | 31 December 2009 | |
| | | ***% of total*** | | *% of total* |
| | ***RMB'000*** | ***revenue*** | *RMB'000* | *revenue* |
| PRC | **116,161** | **80.7** | 98,045 | 73.1 |
| Overseas | **27,796** | **19.3** | 36,145 | 26.9 |
| | **143,957** | **100.0** | 134,190 | 100.0 |

The revenue derived from the PRC for the three months ended 31 December 2010 was approximately RMB116.2 million, representing an increase of approximately 18.5% as compared to approximately RMB98.0 million for the three months ended 31 December 2009.

The revenue derived from overseas markets for the three months ended 31 December 2010 amounted to approximately RMB27.8 million, representing a decrease of approximately 23.1% as compared with that of approximately RMB36.1 million for the three months ended 31 December 2009.

### Cost of revenue

Cost of revenue for the three months ended 31 December 2010 decreased by approximately 22.0% to approximately RMB14.6 million as compared with that of approximately RMB18.7 million for the three months ended 31 December 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 31 December 2010 was approximately RMB129.3 million, representing an increase of approximately 12.0% as compared to approximately RMB115.5 million for the three months ended 31 December 2009.

However, the gross profit margin for the three months ended 31 December 2010 was approximately 89.8%, which represented an increase of approximately 3.8% as compared with the three months ended 31 December 2009.

**Other income and gains**

Other income and gains for the three months ended 31 December 2010 increased by approximately 108.9% to approximately RMB37.4 million as compared with the three months ended 31 December 2009. The increase in other income and gains was mainly caused by (i) the increase in government grants received by NetDragon (Fujian) and TQ Digital from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳); and (ii) the gain on revaluation of investment property in Hong Kong being recognised by approximately RMB3.6 million.

Moreover, the other income and gains also comprise the income contributed from mobile Internet business. To further develop our business operation, we commenced to establish the mobile Internet business in 2008. The mobile Internet business started to contribute income to the Group from early 2010. For the three months ended 31 December 2010, income derived from mobile Internet business was approximately RMB4.2 million.

**Selling and marketing expenses**

Selling and marketing expenses for the three months ended 31 December 2010 decreased by approximately 30.1% to approximately RMB24.3 million as compared with the three months ended 31 December 2009. The decrease in selling and marketing expenses was mainly due to (i) the decrease in advertising and promotion activities for Eudemons Online, Way of the Five and Tian Yuan; 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.

The Group re-allocated the resources for the development of the mobile Internet business. As at 31 December 2010, the number of staff in the mobile Internet business was 166, which has decreased by approximately 12.6%, as compared with the number of staff as at 31 December 2009. The selling and marketing expenses of mobile Internet business for the three months ended 31 December 2010 and 31 December 2009 were approximately RMB0.3 million and approximately RMB3.4 million, respectively.

**Administrative expenses**

Administrative expenses increased by approximately 32.9% to approximately RMB49.8 million for the three months ended 31 December 2010 as compared with the three months ended 31 December 2009. The increase in administrative expenses was mainly due to (i) the rise in exchange loss resulted from appreciation of RMB against USD and HKD; (ii) the increase of capital expenditure during the second half of 2010 resulted in the increase of depreciation expenses; and (iii) the performance rewards being given to staff with outstanding performance increased.

Besides that, the Group re-allocated the resources for the integrated application development and other new business divisions. As at 31 December 2010, the total number of staff in the integrated application development and other new business divisions was 70, which has increased by approximately 32.1%, as compared with the number of staff as at 31 December 2009. The administrative expenses of integrated application development and other new business divisions for the three months ended 31 December 2010 and 31 December 2009 were approximately RMB1.5 million and approximately RMB0.7 million, respectively.

**Development costs**

Development costs decreased by approximately 14.3% to approximately RMB49.9 million for the three months ended 31 December 2010 as compared with the three months ended 31 December 2009. The number of staff in our development team decreased from 1,804 as at 31 December 2009 to 1,322 as at 31 December 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 for the development of the mobile Internet business and integrated application. As at 31 December 2010, the total number of staff in the mobile Internet business and integrated application development was 111, which has decreased by approximately 43.4%, as compared with the number of staff as at 31 December 2009. The total development costs of mobile Internet business and integrated application development for the three months ended 31 December 2010 and 31 December 2009 were approximately RMB6.0 million and approximately RMB5.6 million, respectively.

**Other expenses**

Other expenses for the three months ended 31 December 2010 were approximately RMB5.6 million, which represented an increase of approximately 305.8% as compared with the three months ended 31 December 2009. The increase in the amount of other expenses was mainly caused by a donation of approximately RMB2.5 million to the Fujian Haixi Youth Business Foundation* (福建海西青年創業基金會).

**Taxation**

Taxation for the three months ended 31 December 2010 rose by approximately 8,128.7% as compared with the three months ended 31 December 2009. The increase as compared with the three months ended 31 December 2009 was the effect of change of tax rate for the years ended 31 December 2008 and 2009 according to a circular issued by the PRC Ministry of Finance and the SAT (中國財政部及國家稅務總局) (Guo Shui Han 2010 No.157) in April 2010.

TQ Digital was entitled to enjoy 50% tax reduction in EIT rate on the technical service income for the years ended 31 December 2008 and 2009, as mentioned in the section of "Management Discussion and Analysis" of the 2008 and 2009 annual report. The SAT clarified that the tax reduction should be based on statutory tax rate of 25% instead of the preferential income tax rate of 15% for a hi-tech enterprise. Thus, the EIT rate of TQ Digital on the technical service income has been increased from 7.5% to 12.5% with retrospectively effect from 1 January 2008 onwards. The tax effect caused by the change of tax rate for the years ended 31 December 2008 and 2009 was approximately RMB20.1 million.

* *For identification purpose only*

**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 31 December 2010 was approximately RMB9.3 million, representing an increase of approximately RMB7.9 million as compared with approximately RMB1.4 million for the three months ended 31 December 2009.

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2010, we had bank deposits, bank balances and cash of approximately RMB1,218.7 million as compared with approximately RMB1,257.0 million as at 31 December 2009.

As at 31 December 2010, the Group had net current assets of approximately RMB1,178.3 million as compared with approximately RMB1,271.7 million as at 31 December 2009.

## STAFF INFORMATION

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

| | **At 31 December 2010** | At 30 September 2010 | At 31 December 2009 |
|---|---|---|---|
| Research and development | **1,322** | 1,363 | 1,804 |
| Operation and marketing | **534** | 535 | 612 |
| Accounting, finance and general administration | **371** | 379 | 485 |
| Total | **2,227** | 2,277 | 2,901 |

As at 31 December 2010, we had a total of 2,227 employees (30 September 2010 and 31 December 2009: 2,277 and 2,901, respectively), 890 of which are game developers of the research and development department, representing approximately 40.0% of the total number of staff.

The number of employees of mobile Internet business as at 31 December 2010 under research and development was 25 (30 September 2010 and 31 December 2009: 20 and 28, respectively); and the number of employees of integrated application development as at 31 December 2010 was 86 (30 September 2010 and 31 December 2009: 91 and 168, respectively).

The number of employees of mobile Internet business as at 31 December 2010 under operation and marketing was 166 (30 September 2010 and 31 December 2009: 159 and 190, respectively).

The number of employees of integrated application development as at 31 December 2010 under accounting, finance and general administration was 9 (30 September 2010 and 31 December 2009: 9 and nil, respectively); and the number of employees of other new business divisions as at 31 December 2010 was 61 (30 September 2010 and 31 December 2009: 60 and 53, respectively).

After three years' expansion of the Group, we have slowed down 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 31 December 2010, 30 September 2010 and 31 December 2009.

On the other hand, the Group always keep 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

During the year under review, the Group has endeavoured to maintain its leading position in the PRC's online game industry. It aimed to seize market opportunities of the online game industries in both the PRC and overseas in time by continuously implementing its strategies of developing and enhancing operation of its core games.

Complying with the rapid business growth momentum of mobile Internet industry in the PRC, the Group has increased its efforts to develop its mobile Internet business as another source of business growth in addition to online games.

***Launch of new games***

During the year under review, the Group sought to expand its product offerings by continuing to develop additional online games with its strong research and development capabilities.

*Disney Fantasy Online*

The open beta testing of Disney Fantasy Online, a 2.5D turn-based online game developed jointly by the Group and Disney Interactive Media Group, was carried out in May 2010. The first expansion pack of the game, namely "The Awakening of Justice", was launched in September 2010 after the open beta testing.

*Tian Yuan*

The open beta testing of Tian Yuan, a self-developed large-scale fantasy 2.5D MMORPG, was carried out in July 2010. The game has a number of new features with a broad story plot and over 500 major tasks. A 3D real time operation technology is also applied to improve the quality of the game.

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

To maximise the lifespan of its existing games, the Group has continued to launch timely upgrades by offering a variety of virtual items and tasks to players in order to sustain interest in the games among online players and bolster the popularity of its games.

During the year under review, the Group has continued to introduce new expansion packs to enrich its existing games. In 2010, diversified versions of Eudemons Online were released to enhance the attractiveness of the game to the players; the Chinese versions of expansion packs of Conquer Online, namely "Legends Return" and "The Returning Light", were launched in May and November 2010, respectively; meanwhile, the Group also launched an expansion pack "Galactic Armada" for the Chinese version of Zero Online in February 2010 and the "Battle Version"* (奮鬥版), another new version with different playing methods, in the year under review. A new expansion pack "Phoenix Returns"* (鳳凰歸來) of Heroes of Might and Magic Online was launched in November 2010.

For the expansion of overseas markets, the Group continued to maintain its leading advantages among the PRC's online game operators and launched several game products in various countries and regions with market potential in 2010.

In respect of self-operated games, the English, French, Spanish and Arabia versions of the expansion pack "Legends Return" for Conquer Online were launched. The English version expansion pack of "The Returning Light" was also launched during the year under review; the open beta testing of the English version of Heroes of Might and Magic Online, targeting the Asia Pacific market, was carried out in June 2010.

The Group has entered into other overseas markets through close cooperation with local major operators. During the year under review, open beta testings of Conquer Online and Eudemons Online were carried out in Brazil and Vietnam, respectively; the expansion pack "Demon Rising" of the traditional Chinese version of Eudemons Online has also been launched in Malaysia, Taiwan and Hong Kong; the expansion pack "The Divine Path" of the Portuguese version of Eudemons Online has been

* *For identification purpose only*

launched in Brazil; the open beta testing of the traditional Chinese version of Way of the Five were carried out in Hong Kong, Macau and Taiwan; the expansion pack "Galactic Armada" of the traditional Chinese and Vietnamese versions of Zero Online has been launched in Hong Kong and Vietnam, respectively.

***Games in the pipeline***

To cope with the intensifying competition in the online game industry, in addition to upgrading its existing games and keeping its vitality, the Group has also focused on enriching its product reserve to ensure its leading competitive advantages in the future.

In May 2010, the Group entered into 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 an MMORPG named "TRANSFORMERS Online" based on Hasbro's iconic TRANSFORMERS brand.

During the year under review, the Group carried out two closed beta testings for its first 3D online game, World of Dungeon Keeper (previously named as Dungeon Keeper Online), the development of the game was the first cooperation arrangement between the Group and Electronic Arts Inc. The game has been improved and an open beta testing is expected to be carried out in the second half of 2011.

***Mobile Internet Business***

During the year under review, with more efforts put into the research and development and promotion of software products and games for famous smart-phones as well as the increasing revenue from advertisements, games and online shops, the strategic importance of the Group's mobile Internet business has increased. It has become a key project in the future business development of the Group.

In 2010, the Group launched various self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. As of December 2010, the total number of users of the 91 Series mobile phone software (including 91 Panda Reader, 91 PC Suite, etc.) exceeded tens of millions and it became one of the advanced mobile phone applications in the PRC.

The Group's self-developed cross-platform mobile games, such as 91 Farm* ("91農場") and 91 Pasture* ("91牧場"), have been launched to the market, and the Group has further introduced updated versions during the year under review. These games also provide numerous interactive features for players and their friends, enhancing the loyalty of the game players significantly.

In line with the development of business model in the mobile Internet application industry, the Group has strived for establishing a platform based operation model by integrating its research and development, operations and payment channels. The Group will focus on the rapidly-developing mobile Internet market in the PRC by providing full support to the development and innovation of Internet applications, contents and services of domestic and foreign small and medium enterprises and individual developers. In addition, the Group launched mobile open platforms of the 91 Series to provide mobile phone users resources and one-stop solution regarding users, social networking and payment to the developers.

As of 31 December 2010, the mobile Internet business of the Group has 191 employees, representing approximately 8.6% of the overall staff headcount, which secured the leading position of the Group's mobile Internet business in the future.

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

The intense competition in the online game and mobile Internet application industries has driven the Group to focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 31 December 2010, the Group's overall staff headcount was 2,227, of which 1,322 were members of the development team. After more than a decade of talent cultivation, the development team of the Group has gathered expertise in programming, design and graphics, which will support its frequent R&D, game upgrades and software upgrades to accommodate the latest player preferences and satisfy emerging market trends.

## PROSPECTS AND OUTLOOK

Looking forward to 2011, the Group plans to further enhance its game development capabilities and to train talented R&D personnel. Aside from developing new games to expand its product lines, the Group will continue to update the content for its games and provide diversified game versions for extending the life span of its products. As such, the Group's revenue base can be maximised.

In respect of its overseas market development, the Group will maintain its current market share in the overseas market with an additional focus on emerging markets of substantial potential to strengthen its leading position in the global online game industry.

* *For identification purpose only*

In respect of its mobile Internet business, it is expected that the rapidly-rising popularity of smart-phones and 3G network in the PRC, the increasing competitive edges of the Group's mobile Internet products, the substantial customer base and the optimised sales channels will facilitate the Group's business breakthrough.

**Online Games**

***MMORPGs***

The Group will continue to invest in the development of new MMORPGs, which are creative and have great market potential, so as to extend its product lines for retaining current players and attracting attention from more players of various levels.

> *TRANSFORMERS Online*
>
> In May 2010, the Group entered a brand licensing agreement with 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 the PRC as well as other select markets in Asia, MENA and Russia/CIS.
>
> *World of Dungeon Keeper*
>
> In 2010, the Group carried out two closed beta testings for the 3D MMORPG, World of Dungeon Keeper. Open beta testing is expected in the second half of 2011.

Besides developing more games, the Group will continue to put emphasis on the update of existing game contents in order to ensure that they remain appealing. It is estimated that new expansion packs of the major products of the Group, including Eudemons Online, Conquer Online, Zero Online and Way of the Five, will be released in 2011.

***Other Online Games***

In addition to the above-mentioned MMORPGs, the Group has also researched and developed various types of games to satisfy players with different demands in the market.

*icombo* (都市快打)*

icombo (previous named as Cross Gate* (時空之門)) was the first 2D horizontal edition combat online game of the Group. Two closed beta testings of icombo were completed in 2010 and an open beta testing will be carried out in 2011.

*Absolute Force* (絕對火力)*

A self-developed first-person role-playing shooting game of the Group. Set against the background of modern anti-terrorism war, it features realistic graphic designs and a wide range of virtual guns. Further enriching its visual impact and operation system is the 3D character animation. This game enables players to experience unprecedented excitement in the true-to-life virtual game world.

**Mobile Internet Business**

The Group will further develop mobile Internet products, including smart-phone software applications and games for mobile phones. By launching updated versions for existing products on an ongoing basis, the Group can offer online users with more user-friendly product experience and cater for their needs to strength their loyalty. In addition, the Group will promote the platform building strategy which provides leading platform resources of the industry for small and medium-sized game developers at home and abroad to create a win-win situation for all parties.

**Conclusion**

In the face of the intensifying competition in the online game industry and the overall slowdown in the development of the industry, the Group believes that its future success will rely more on its core competitiveness. To this end, the Group will further invest in and strengthen game development and operation by launching internal training programs and employing experienced elite games developer, graphic designers and market operators for the continuous enhancement of its product appeal to players.

* *For identification purpose only*

There has been a surge in the number of online game products which resulted in a higher market expectation on quality games. In view of this, the Group intends to cater for the demands of players on storyline setting, graphic style and playing methods of the new games by regulating the development process of various game projects in 2011. It will also carry out initiatives to optimise the perspectives and planning of market forecast at the early development stage, identify development targets for each version of game projects and improve operating standards for projects which are subject to regular auditing. The above measures will also help to optimize the cost structure of the Group and generate more profits from the future revenue growth.

The Group's lay-out for its mobile Internet business is expected to boost its rapid growth in 2011. With the favourable mobile Internet development in the PRC as well as the endeavours of the Group, its mobile Internet business will become another major source of growth apart from its online games.

**PROJECT IN THE HAIXI ANIMATION CREATIVITY CITY (THE "PROJECT")**

During the year under review, 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.

In 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 further 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.

As at 31 December 2010, the Group had capital commitments in relation to the development of the Project of approximately RMB187.7 million, in which the Group had settled approximately RMB38.6 million.

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 circular of the Company dated 19 May 2010 and the announcement of the Company dated 25 October 2010. 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.

Further details are set out in the circular of the Company dated 19 May 2010 and the announcement of the Company dated 25 October 2010.

## OTHER EVENTS

The Group started the talent optimization project from last year 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 total labour cost as shown in the full year result 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.

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

As at 31 December 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:

| **Name of Director** | **Name of company** | **Capacity and nature of interests** | **Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)* | **Approximate percentage of shareholding** |
|---|---|---|---|---|
| Liu Dejian *(Note 2)* | The Company | Beneficial owner and through controlled corporations | 272,594,220(L) | 51.57% |

| Name of Director | Name of company | Capacity and nature of interests | Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)* | Approximate percentage of shareholding |
|---|---|---|---|---|
| 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 | Beneficial owner and through controlled corporations | 272,394,220(L) | 51.53% |
| 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 | 270,994,220(L) | 51.26% |
| 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 | 197,019(L) | 0.03% |
| Lee Kwan Hung | The Company | Beneficial owner | 197,019(L) | 0.03% |
| Liu Sai Keung, Thomas | The Company | Beneficial owner | 197,019(L) | 0.03% |

*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 5.03%, 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 51.26% 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 Hongzhen 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 31 December 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 31 December 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 | 26,618,400(L) | 5.03% |
| 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 31 December 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 year ended 31 December 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 31 December 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.

## FINAL DIVIDEND

The Directors have recommended the payment of a final dividend of HKD0.02 per share. The final dividend, if approved by the shareholders at the AGM, is expected to be paid on or around 24 May 2011 to shareholders whose names appear on the register of members of the Company on 16 May 2011, amounting to approximately HKD10,571,000.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17 May 2011 to Friday, 20 May 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and the right to attend and vote at the AGM, 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 at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30p.m. on Monday, 16 May 2011.

## ANNUAL GENERAL MEETING

The AGM of the Company will be held on 20 May 2011, notice of which will be published and despatched to the shareholders as soon as practicable in accordance with the Company's articles of association and the Listing Rules.

## 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 THE CG CODE PROVISIONS

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

## SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2010 as set out in the results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the results announcement.

## AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision and has held four meetings during 2010. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

The Audit Committee reviews the quarterly, interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continued connected transactions and connected transactions relating to structure contracts and other contracts of the Group.

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

The terms of reference of the Audit Committee are posted on the Company's website. The Group's audited consolidated financial statements for the year ended 31 December 2010 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2010, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
**NetDragon Websoft Inc.**
**Liu Dejian**
*Chairman*

Hong Kong, 25 March 2011

*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.*