NetDragon Websoft Inc.
網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2011

The board (the "Board") of directors (the "Director(s)") of NetDragon Websoft Inc. (the "Company") is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2011. The first quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the "Auditor") of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and reviewed by the audit committee (the "Audit Committee") of the Company, comprising of three independent non-executive Directors.

RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2011 together with the comparative figures in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2011

		Three months ended 31 March	
	NOTES	**2011**	2010
		(Unaudited)	*(Unaudited)*
		RMB'000	*RMB'000*
Revenue	4	**150,656**	139,476
Cost of revenue		**(14,543)**	(18,717)
Gross profit		**136,113**	120,759
Other income and gains	4	**16,011**	5,660
Selling and marketing expenses		**(25,318)**	(22,197)
Administrative expenses		**(46,591)**	(42,176)
Development costs		**(40,577)**	(39,739)
Other expenses		**(1,885)**	(928)
Profit before taxation		**37,753**	21,379
Taxation	6	**(3,081)**	(210)
Profit for the period	7	**34,672**	21,169
Other comprehensive (expense) income:			
Exchange differences arising on translation of foreign operations		**(172)**	20
Total comprehensive income for the period		**34,500**	21,189

	NOTE	Three months ended 31 March 2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Profit for the period attributable to:			
- Owners of the Company		**34,612**	21,215
- Non-controlling interests		**60**	(46)
		34,672	21,169
Total comprehensive income attributable to:			
- Owners of the Company		**34,440**	21,235
- Non-controlling interests		**60**	(46)
		34,500	21,189
		RMB cents	*RMB cents*
Earnings per share	9		
- Basic		**6.57**	4.03
- Diluted		**6.57**	4.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011

	NOTES	**31 March 2011** **(Unaudited)** ***RMB'000***	31 December 2010 *(Audited)* *RMB'000*
Non-current assets			
Property, plant and equipment		**133,225**	128,534
Prepaid lease payments		**87,405**	87,753
Investment property		**14,908**	14,551
Deposit paid for acquisition of property, plant and equipment		**19,050**	19,050
Intangible assets		**12,806**	13,136
Interests in jointly controlled entities		**—**	—
Available-for-sale investments		**4,000**	4,000
Loan receivables		**5,819**	5,819
Deferred tax assets		**54**	54
		277,267	272,897
Current assets			
Prepaid lease payments		**1,784**	1,784
Loan receivables		**663**	893
Trade receivables	10	**35,378**	24,393
Other receivables, prepayments and deposits		**54,973**	40,072
Held for trading investments		**187**	1,079
Amounts due from related companies	11	**1,280**	171
Bank deposits		**340,828**	340,828
Bank balances and cash		**885,175**	877,823
		1,320,268	1,287,043

	NOTE	31 March 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Current liabilities			
Trade payables	12	**544**	519
Other payables and accruals		**57,557**	58,218
Deferred income		**23,953**	23,119
Amount due to a shareholder		**5,328**	5,328
Income tax payable		**23,711**	21,599
		111,093	108,783
Net current assets		**1,209,175**	1,178,260
		1,486,442	1,451,157
Capital and reserves			
Share capital		**39,264**	39,264
Share premium and reserves		**1,447,658**	1,412,433
Equity attributable to owners of the Company		**1,486,922**	1,451,697
Non-controlling interests		**(480)**	(540)
		1,486,442	1,451,157

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2011

	Attributable to owners of the Company													
	Share capital	**Share premium**	**Capital redemption reserve**	**Capital reserve**	**Statutory reserves**	**Dividend reserve**	**Revaluation 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 2010	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
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	21,215	21,215	(46)	21,169
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	20	—	20	—	20
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	20	21,215	21,225	(46)	21,189
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	1,567	—	—	1,567	—	1,567
Transfer	—	—	—	—	17	—	—	—	—	—	(17)	—	—	—
	—	—	—	—	17	—	—	—	1,567	—	(17)	1,567	—	1,567
At 31 March 2010 (unaudited)	39,264	1,157,364	1,963	9,946	114,659	23,270	—	(10,757)	6,208	(56,471)	193,661	1,479,107	(530)	1,478,577
At 1 January 2011	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
Profit for the period	—	—	—	—	—	—	—	—	—	—	34,612	34,612	60	34,672
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	(172)	—	(172)	—	(172)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	(172)	34,612	34,440	60	34,500
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	785	—	—	785	—	785
At 31 March 2011 (unaudited)	39,264	1,157,364	1,963	9,946	121,339	8,994	673	(8,494)	10,324	(56,835)	202,384	1,486,922	(480)	1,486,442

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2011

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
NET CASH FROM OPERATING ACTIVITIES	**20,586**	8,123
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	**(16,597)**	(11,380)
Decrease in bank deposits	**—**	103,500
Other investing cash flows	**2,054**	(221)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(14,543)**	91,899
NET INCREASE IN CASH AND CASH EQUIVALENTS	**6,043**	100,022
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**877,823**	705,053
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,309**	39
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**885,175**	805,114

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2011

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described below.

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

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

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

HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[2]

HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]

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

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

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

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 that 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.

4. REVENUE, OTHER INCOME AND GAINS

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue		
Online game revenue	**150,656**	139,476
Other income and gains		
Advertising income	**—**	153
Gain on fair value changes of investment property	**507**	—
Government grants *(Note)*	**4,371**	1,104
Interest income	**3,620**	2,504
Mobile Internet business income	**6,099**	1,134
Net gain on held for trading investments	**225**	602
Rental income, net of RMB300 outgoings (2010: Nil)	**77**	—
Others	**1,112**	163
	16,011	5,660

Note:

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

5. SEGMENT INFORMATION

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:

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Segment revenue	**150,656**	139,476
Segment profit	**47,619**	29,824
Unallocated income and gains	**3,846**	4,556
Unallocated expenses	**(13,712)**	(13,001)
Profit before taxation	**37,753**	21,379

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, 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:

	31 March	31 December
	2011	2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Operating segment assets	**1,333,783**	1,287,465
Unallocated	**263,752**	272,475
	1,597,535	1,559,940

6. TAXATION

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
The charge comprises:		
Hong Kong Profits Tax	**1,867**	—
The PRC Enterprise Income Tax ("EIT")	**1,167**	160
Taxation in other jurisdictions	**47**	50
	3,081	210

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months ended 31 March 2011. No provision for Hong Kong Profits Tax had been made for the three months ended 31 March 2010 as the Group's income neither arises in, nor is derived from, Hong Kong.

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

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

7. PROFIT FOR THE PERIOD

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**1,480**	1,468
Other staff costs		
Salaries and other benefits	**58,417**	56,212
Contributions to retirement benefits schemes	**4,703**	4,188
Share-based payments expense	**282**	603
	64,882	62,471
Amortisation of intangible assets (included in cost of revenue)	**1,839**	1,093
Amortisation of intangible assets (included in other expenses)	**590**	435
Release of prepaid lease payments (included in administrative expenses)	**348**	191
Depreciation of property, plant and equipment	**10,305**	10,793
Operating lease rentals in respect of:		
- rented premises	**4,259**	3,485
- computer equipment	**7,153**	10,565
Net foreign exchange loss	**3,596**	1,605
(Gain) loss on disposal of property, plant and equipment	**(39)**	290

8. DIVIDENDS

The Directors of the Company do not recommend the payment of an interim dividend for the three months ended 31 March 2011 (three months ended 31 March 2010: Nil).

9. EARNINGS PER SHARE

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

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share	**34,612**	21,215

	Three months ended 31 March Number of shares	
	2011	2010
	(Unaudited)	*(Unaudited)*
	'000	*'000*
Number of shares for the purpose of basic earnings per share	**526,675**	526,151
Effect of dilutive potential shares from the Company's share option scheme	**—**	24
Weighted average number of shares for the purpose of calculating diluted earnings per share	**526,675**	526,175

The presentation of diluted earnings per share for the three months ended 31 March 2011 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 the share award scheme and share option scheme was higher than the average market price of the shares for the three months ended 31 March 2011.

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

10. 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 debt presented based on the invoice date at the end of reporting period.

	31 March 2011	31 December 2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
0 - 30 days	**26,446**	18,250
31 - 60 days	**4,194**	4,876
61 - 90 days	**1,268**	1,000
Over 90 days	**3,470**	267
	35,378	24,393

11. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to section 161B of the Companies Ordinance is as follows:

Name of related company	**Terms**	**Balance at 31 March 2011** ***RMB'000***	Balance at 31 December 2010 *RMB'000*	**Maximum amount outstanding during the period** ***RMB'000***
福州天亮網絡技術有限公司Fuzhou Tianliang Network Technology Co., Limited ("Fuzhou Tianliang") *(Note 1)*	Unsecured, non-interest bearing and repayable on demand	**962**	171	**962**
福州楊振華851生物工程技術研究開發有限公司 Fuzhou Yangzhenhua 851Bio-Engineering Research Inc. ("Fuzhou 851") *(Note 2)*	Unsecured, non-interest bearing and repayable on demand	**318**	—	**318**
		1,280	171	**1,280**

Notes:

(1) Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, which acts under the instruction of controlling shareholders.

(2) Fuzhou 851 is an entity which is owned by DJM Holding Ltd., the immediate holding company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, together have 86.16% equity interest in this entity.

12. TRADE PAYABLES

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

	31 March 2011	31 December 2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
0 - 90 days	**529**	508
91 - 180 days	**4**	—
181 - 365 days	**—**	—
Over 365 days	**11**	11
	544	519

13. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

Details of specific categories of options are as follows:

Date of grant	**Vesting period**	**Exercise period**	**Number of share options at 1 January 2011 and 31 March 2011**
7 December 2009	N/A	7 December 2009 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2010	7 December 2010 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2011	7 December 2011 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2012	7 December 2012 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2013	7 December 2013 - 6 December 2019	1,360,000
			6,800,000

No options were granted or exercised during the period. The number of share options outstanding at 31 March 2011 was 6,800,000.

The Group recognised the total expenses of approximately RMB743,000 for the three months ended 31 March 2011 (three months ended 31 March 2010: RMB1,425,000) in relation to share options granted by the Company.

(ii) Share award scheme

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

The rationale of the Share Award Scheme is to recognise the contributions by certain employees and to provide incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The selected employee is not required to pay for the grant of the Award or for the shares allotted or allocated pursuant to the Award.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB42,000 for the three months ended 31 March 2011 (three months ended 31 March 2010: RMB142,000) in relation to share award.

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

No share awards were vested and released during the period. The number of share awards outstanding at 31 March 2011 was 308,742.

14. RELATED PARTY TRANSACTIONS

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

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

Name of/and relationship with related parties

Name of related parties	**Relationship**
Mr. Liu Luyuan	Executive director and beneficial owner of the Company
Mr. Wu Jialiang	Key management of the Group

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Nature of transactions		
Rental charges by Fuzhou 851	**636**	636
Service fee at recreation centre paid to Fuzhou 851	**1,500**	1,500
After-sales service fee paid to Fuzhou Tianliang	**2,808**	2,520
Technical service fee paid to Fuzhou Tianliang	**605**	540
Interest received on loan advanced to key management	**9**	9

In addition, included in loan receivables at 31 March 2011 was loan advanced to key management of approximately RMB700,000 (31 December 2010: RMB700,000).

Compensation of key management personnel

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

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Salaries, allowances and other short-term employee benefits	**1,409**	967
Contributions to retirement benefits schemes	**18**	21
Share-based payments expense	**785**	1,510
	2,212	2,498

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

15. CAPITAL COMMITMENTS

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

	31 March 2011	31 December 2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial information	**150,587**	149,072

16. EVENTS AFTER THE REPORTING PERIOD

Issue of share options

On 28 April 2011, the Company granted a total of 16,090,900 share options to subscribe for up to 16,090,900 ordinary shares of USD0.01 each in the capital of the Company at an exercise price of HKD4.80 under its share option scheme to certain eligible participants. The closing price of the Company's share on grant date was HKD4.80.

Details of specific categories of share options are as follows:

Date of grant	**Vesting period**	**Exercise period**	**Number of share options granted**
28 April 2011	28 April 2011 - 27 April 2012	28 April 2012 - 27 April 2021	1,789,090
28 April 2011	28 April 2011 - 27 April 2013	28 April 2013 - 27 April 2021	2,533,635
28 April 2011	28 April 2011 - 27 April 2014	28 April 2014 - 27 April 2021	3,578,180
28 April 2011	28 April 2011 - 27 April 2015	28 April 2015 - 27 April 2021	3,722,725
28 April 2011	28 April 2011 - 27 April 2016	28 April 2016 - 27 April 2021	4,467,270
			16,090,900

Further details of the grant of share options are set out in the announcement of the Company dated 28 April 2011.

Issue of preferred shares

On 30 May 2011, a share purchase agreement (the "Share Purchase Agreement") was entered between 91 Limited, an indirect wholly owned subsidiary of the Company, and investors who collectively are also substantial shareholders of the Company, for the issuance of 15,384,000 preferred shares of 91 Limited at a consideration of USD3,999,840. The preferred shares account for approximately 17.9% of the share capital of 91 Limited upon the full conversion of the preferred shares. The holders of the preferred shares have the right to convert the preferred shares to ordinary shares at the conversion price of USD0.26 upon the qualified initial public offering or the receipt of notice for conversion from 91 Limited. 91 Limited has the right to redeem all preferred shares at the redemption price of USD0.26 per preferred share plus cumulative rate of return of 5% per annum and any declared but unpaid dividends on the preferred shares after receipt of written request signed by the holders of at least two-third of the preferred shares at any time after the fifth but not later than the tenth anniversary of the issuance date of preferred shares. The Directors of the Company are still assessing the financial impact of this transaction.

As at 30 May 2011, the investors had advanced 91 Limited an aggregate amount of USD1,500,000 of the loan which is unsecured, non-interest bearing and repayable on demand. It is intended that such indebtedness would be utilised to partially set off the consideration under the Share Purchase Agreement.

Further details of the Share Purchase Agreement are set out in the announcement of the Company dated 30 May 2011.

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 March 2011	31 December 2010	30 September 2010	30 June 2010	31 March 2010
PCU	**546,000**	542,000	589,000	449,000	451,000
ACU	**246,000**	232,000	226,000	217,000	230,000

Note: As at 31 March 2011, 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 546,000 for the three months ended 31 March 2011, representing an increase of approximately 0.7% from the three months ended 31 December 2010 and representing an increase of approximately 21.1% from the three months ended 31 March 2010.

We also recorded the ACU for online games of approximately 246,000 for the three months ended 31 March 2011, which represented an increase of approximately 6.0% from the three months ended 31 December 2010 and represented an increase of approximately 7.0% from the three months ended 31 March 2010.

FINANCIAL PERFORMANCE HIGHLIGHTS
THREE MONTHS ENDED 31 MARCH 2011

The following table sets forth the comparative figures for the three months ended 31 March 2011 and 2010:

	Three months ended 31 March	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**150,656**	139,476
Cost of revenue	**(14,543)**	(18,717)
Gross profit	**136,113**	120,759
Other income and gains	**16,011**	5,660
Selling and marketing expenses	**(25,318)**	(22,197)
Administrative expenses	**(46,591)**	(42,176)
Development costs	**(40,577)**	(39,739)
Other expenses	**(1,885)**	(928)
Profit before taxation	**37,753**	21,379
Taxation	**(3,081)**	(210)
Profit for the period	**34,672**	21,169
Profit for the period attributable to:		
- Owners of the Company	**34,612**	21,215
- Non-controlling interests	**60**	(46)
	34,672	21,169

First Quarter of 2011

Revenue

Revenue for the first quarter of 2011 was approximately RMB150.7 million, representing an increase of approximately 4.7% from the fourth quarter of 2010 and an increase of approximately 8.0% over the same period in 2010.

Cost of revenue

Cost of revenue for the first quarter of 2011 was approximately RMB14.5 million, representing a decrease of approximately 0.5% from the fourth quarter of 2010 and a decrease of approximately 22.3% over the same period in 2010.

Other income and gains

Other income and gains of approximately RMB16.0 million were recorded for the first quarter of 2011, compared to other income and gains that of approximately RMB37.4 million and approximately RMB5.7 million for the fourth quarter of 2010 and the same period in 2010, respectively.

Other income and gains 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 first quarter of 2011, fourth quarter of 2010 and same period in 2010, income derived from mobile Internet business were approximately RMB6.1 million, RMB4.2 million and RMB1.1 million, respectively.

Selling and marketing expenses

Selling and marketing expenses for the first quarter of 2011 were approximately RMB25.3 million, representing an increase of approximately 4.3% from the fourth quarter of 2010 and an increase of approximately 14.1% over the same period in 2010.

Administrative expenses

Administrative expenses for the first quarter of 2011 were approximately RMB46.6 million, representing a decrease of approximately 6.4% from the fourth quarter of 2010 and representing an increase of approximately 10.5% over the same period in 2010.

Development costs

Development costs for the first quarter of 2011 were approximately RMB40.6 million, representing a decrease of approximately 18.7% from the fourth quarter of 2010 and an increase of approximately 2.1% over the same period in 2010.

Other expenses

Other expenses for the first quarter of 2011 were approximately RMB1.9 million, representing a decrease of approximately 66.0% from the fourth quarter of 2010 and an increase of approximately 103.1% over the same period in 2010.

Profit for the period

Profit for the period for the first quarter of 2011 was approximately RMB34.7 million, representing an increase of approximately 269.9% from the fourth quarter of 2010 and an increase of approximately 63.8% over the same period in 2010. As a percentage of revenue, profit for the period accounted for approximately 23.0% for the first quarter of 2011, compared to approximately 6.5% for the fourth quarter of 2010 and approximately 15.2% for the same period of 2010.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the first quarter of 2011 was approximately RMB34.6 million, representing an increase of approximately 272.5% from the fourth quarter of 2010 and an increase of approximately 63.1% over the same period in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2011 Compared to Fourth Quarter of 2010

The following table sets forth the comparative figures for the first quarter of 2011 and the fourth quarter of 2010:

	Three months ended	
	31 March	31 December
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**150,656**	143,957
Cost of revenue	**(14,543)**	(14,618)
Gross profit	**136,113**	129,339
Other income and gains	**16,011**	37,353
Selling and marketing expenses	**(25,318)**	(24,280)
Administrative expenses	**(46,591)**	(49,783)
Development costs	**(40,577)**	(49,891)
Other expenses	**(1,885)**	(5,552)
Profit before taxation	**37,753**	37,186
Taxation	**(3,081)**	(27,813)
Profit for the period	**34,672**	9,373
Profit for the period attributable to:		
- Owners of the Company	**34,612**	9,292
- Non-controlling interests	**60**	81
	34,672	9,373

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 31 March 2011 was approximately RMB150.7 million, representing an increase of approximately 4.7% as compared to approximately RMB144.0 million for the three months ended 31 December 2010.

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

	Three months ended			
	31 March 2011		31 December 2010	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
PRC	**117,975**	**78.3**	116,161	80.7
Overseas	**32,681**	**21.7**	27,796	19.3
	150,656	**100.0**	143,957	100.0

The revenue derived from the PRC for the three months ended 31 March 2011 was approximately RMB118.0 million, representing an increase of approximately 1.6% as compared to approximately RMB116.2 million for the three months ended 31 December 2010. The increase in revenue derived from the PRC was mainly due to the release of diversified versions of Eudemons Online in the previous quarter, which resulted in enhancing the attractiveness of the game continuously for the three months ended 31 March 2011.

The revenue derived from overseas markets for the three months ended 31 March 2011 was approximately RMB32.7 million, representing an increase of approximately 17.6% as compared to approximately RMB27.8 million for the three months ended 31 December 2010. The increase in revenue derived from overseas markets was mainly due to the release of new expansion pack for Conquer Online in various languages.

Cost of revenue

Cost of revenue for the three months ended 31 March 2011 was approximately RMB14.5 million, which represented a relatively steady level as compared to approximately RMB14.6 million for the three months ended 31 December 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 March 2011 was approximately RMB136.1 million, representing an increase of approximately 5.2% as compared to approximately RMB129.3 million for the three months ended 31 December 2010.

The gross profit margin for the three months ended 31 March 2011 was approximately 90.3%, which represented an increase of approximately 0.5% as compared with the three months ended 31 December 2010.

Other income and gains

Other income and gains for the three months ended 31 March 2011 were approximately RMB16.0 million, representing a decrease of approximately 57.1% as compared with the three months ended 31 December 2010. The decrease in other income and gains was mainly caused by (i) the decrease in government grants which received by Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") and Fujian TQ Digital Inc. ("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 decrease of approximately RMB3.1 million of gain on fair value changes of investment property in Hong Kong.

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 March 2011, income derived from mobile Internet business increased by approximately 45.8% to approximately RMB6.1 million for the three months ended 31 March 2011 from approximately RMB4.2 million for the three months ended 31 December 2010.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2011 were approximately RMB25.3 million, representing an increase of approximately 4.3% as compared with the three months ended 31 December 2010. The increase in the amount of selling and marketing expenses was mainly due to the increase in advertising and promotion activities for Eudemons Online.

The Group re-allocated the resources for the development of the mobile Internet business. As at 31 March 2011, the number of staff in the mobile Internet business was 176, which has increased by approximately 6.0%, as compared with the number of staff as at 31 December 2010. The direct staff costs of selling and marketing expenses of mobile Internet business for the three months ended 31 March 2011 and 31 December 2010 were approximately RMB0.4 million and approximately RMB0.3 million, respectively.

Administrative expenses

Administrative expenses decreased by approximately 6.4% to approximately RMB46.6 million for the three months ended 31 March 2011 as compared with the three months ended 31 December 2010, which was mainly due to the net effect of (i) the decline in exchange loss resulted from appreciation of RMB against USD and HKD; and (ii) the increase in the provision of performance rewards being given to staff with outstanding performance and for their contribution to the Group.

Besides that, the Group re-allocated the resources for the integrated application development and other new business divisions. As at 31 March 2011, the total number of staff in the integrated application development and other new business divisions was 2, which has decreased by approximately 97.1%, as compared with the number of staff as at 31 December 2010. The total direct staff costs of the administrative expenses of integrated application development and other new business divisions for the three months ended 31 March 2011 and 31 December 2010 were approximately RMB0.8 million and approximately RMB1.5 million, respectively.

Development costs

Development costs decreased by approximately 18.7% to approximately RMB40.6 million for the three months ended 31 March 2011 as compared with the three months ended 31 December 2010. The decrease in the amount of development costs was mainly caused by 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 March 2011, the total number of staff in the mobile Internet business and integrated application development was 104, which has maintained at a steady level, as compared with the number of staff as at 31 December 2010. The total direct staff costs of the development costs of mobile Internet business and integrated application development for the three months ended 31 March 2011 and 31 December 2010 were approximately RMB4.9 million and approximately RMB6.0 million, respectively.

Other expenses

Other expenses for the three months ended 31 March 2011 were approximately RMB1.9 million. The decrease as compared with the three months ended 31 December 2010 was caused by the decrease in the donation to Fujian Haixi Youth Business Foundation* (福建海西青年創業基金會) during the period under review.

Taxation

Taxation for the three months ended 31 March 2011 was approximately RMB3.1 million, which dropped by approximately 88.9% as compared with the three months ended 31 December 2010. The decrease as compared with the three months ended 31 December 2010 was mainly due to there has been no tax impacts for the three months ended 31 March 2011, whereas, there had tax impacts for the three months ended 31 December 2010 as stated in the section headed "Taxation" under "Management Discussion and Analysis" of the latest annual report for the year ended 31 December 2010.

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 March 2011 was approximately RMB34.6 million, representing an increase of approximately RMB25.3 million as compared with approximately RMB9.3 million for the three months ended 31 December 2010.

* *For identification purpose only*

First Quarter of 2011 Compared to First Quarter of 2010

The following table sets forth the comparative figures for the first quarter of 2011 and 2010:

	Three months ended	
	31 March	31 March
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**150,656**	139,476
Cost of revenue	**(14,543)**	(18,717)
Gross profit	**136,113**	120,759
Other income and gains	**16,011**	5,660
Selling and marketing expenses	**(25,318)**	(22,197)
Administrative expenses	**(46,591)**	(42,176)
Development costs	**(40,577)**	(39,739)
Other expenses	**(1,885)**	(928)
Profit before taxation	**37,753**	21,379
Taxation	**(3,081)**	(210)
Profit for the period	**34,672**	21,169
Profit for the period attributable to:		
- Owners of the Company	**34,612**	21,215
- Non-controlling interests	**60**	(46)
	34,672	21,169

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 31 March 2011 was approximately RMB150.7 million, representing an increase of approximately 8.0% as compared to approximately RMB139.5 million for the three months ended 31 March 2010.

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

	Three months ended			
	31 March 2011		31 March 2010	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
PRC	**117,975**	**78.3**	104,466	74.9
Overseas	**32,681**	**21.7**	35,010	25.1
	150,656	**100.0**	139,476	100.0

The revenue derived from the PRC for the three months ended 31 March 2011 was approximately RMB118.0 million, representing an increase of approximately 12.9% as compared to approximately RMB104.5 million for the three months ended 31 March 2010. The increase in revenue derived from the PRC was mainly due to the release of diversified versions of Eudemons Online in the previous quarter, which resulted in enhancing the attractiveness of the game continuously for the three months ended 31 March 2011.

The revenue derived from overseas markets for the three months ended 31 March 2011 amounted to approximately RMB32.7 million, representing a decrease of approximately 6.7% as compared with that of approximately RMB35.0 million for the three months ended 31 March 2010.

Cost of revenue

Cost of revenue for the three months ended 31 March 2011 decreased by approximately 22.3% to approximately RMB14.5 million as compared with that of approximately RMB18.7 million for the three months ended 31 March 2010. 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 March 2011 was approximately RMB136.1 million, representing an increase of approximately 12.7% as compared to approximately RMB120.8 million for the three months ended 31 March 2010.

However, the gross profit margin for the three months ended 31 March 2011 was approximately 90.3%, which represented an increase of approximately 3.8% as compared with the three months ended 31 March 2010.

Other income and gains

Other income and gains for the three months ended 31 March 2011 increased by approximately 182.9% to approximately RMB16.0 million as compared with the three months ended 31 March 2010. The increase in other income and gains was mainly caused by (i) the increase in government grants received by NetDragon (Fujian) 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 (ii) increase in the income derived from mobile Internet business approximately RMB5.0 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 March 2011, income derived from mobile Internet business increased by approximately 452.0% to approximately RMB6.1 million from approximately RMB1.1 million for the three months ended 31 March 2010.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2011 increased by approximately 14.1% to approximately RMB25.3 million as compared with the three months ended 31 March 2010. The increase in selling and marketing expenses was mainly due to the increase in advertising and promotion activities for Eudemons Online.

The Group re-allocated the resources for the development of the mobile Internet business. As at 31 March 2011, the number of staff in the mobile Internet business was 176, which has increased by approximately 5.4%, as compared with the number of staff as at 31 March 2010. The direct staff costs and promotion expenses, selling and marketing expenses of mobile Internet business for the three months ended 31 March 2011 and 31 March 2010 were approximately RMB0.4 million and approximately RMB0.5 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 10.5% to approximately RMB46.6 million for the three months ended 31 March 2011 as compared with the three months ended 31 March 2010. The increase in administrative expenses was mainly due to (i) the rise in exchange loss resulted from appreciation of RMB against USD and HKD; and (ii) the increase in the provision of performance rewards being given to staff with outstanding performance and/or for their contribution to the Group.

Besides that, the Group re-allocated the resources for the integrated application development and other new business divisions. As at 31 March 2011, the total number of staff in the integrated application development and other new business divisions was 2, which has decreased by approximately 96.6%, as compared with the number of staff as at 31 March 2010. The total direct staff costs of the administrative expenses of integrated application development and other new business divisions for the three months ended 31 March 2011 and 31 March 2010 were approximately RMB0.8 million and approximately RMB0.9 million, respectively.

Development costs

Development costs increased by approximately 2.1% to approximately RMB40.6 million for the three months ended 31 March 2011 as compared with the three months ended 31 March 2010. The number of staff in our development team decreased from 1,595 as at 31 March 2010 to 1,496 as at 31 March 2011. The increase in the amount of development costs was caused by the increase in the provision of performance rewards being given to staff with outstanding performance and/or for their contribution to the Group.

Despite, the Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 March 2011, the total number of staff in the mobile Internet business and integrated application development was 104, which has decreased by approximately 40.6%, as compared with the number of staff as at 31 March 2010. The total direct staff costs of the development costs of mobile Internet business and integrated application development for the three months ended 31 March 2011 and 31 March 2010 were approximately RMB4.9 million and approximately RMB7.5 million, respectively.

Other expenses

Other expenses for the three months ended 31 March 2011 were approximately RMB1.9 million, which represented an increase of approximately 103.1% as compared with the three months ended 31 March 2010. The increase in the amount of other expenses was mainly caused by the increase in the donation to the Fujian Youth Development Foundation* (福建省青少年發展基金會).

Taxation

Taxation for the three months ended 31 March 2011 was approximately RMB3.1 million, which rose by approximately 1,367.1% as compared with the three months ended 31 March 2010. The increase was mainly due to there had been no tax impacts for the three months ended 31 March 2010 caused by the change of tax rate, according to a circular issued by the PRC Ministry of Finance and the State Administration of Taxation (中國財政部及國家稅務總局) (Guo Shui Han 2010 No. 157) in April 2010 as stated in the section headed "Taxation" under "Management Discussion and Analysis" of the latest annual report for the year ended 31 December 2010. For this reason, TQ Digital applied the EIT rate of 12.5% on the technical service income for the year ended 31 December 2010, nevertheless, the tax impacts for the three months ended 31 March 2010 was taken into account in May 2010 after the issue of circular.

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 March 2011 was approximately RMB34.6 million, representing an increase of approximately RMB13.4 million as compared with approximately RMB21.2 million for the three months ended 31 March 2010.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2011, we had bank deposits, bank balances and cash of approximately RMB1,226.0 million as compared with approximately RMB1,218.7 million as at 31 December 2010.

As at 31 March 2011, the Group had net current assets of approximately RMB1,209.2 million as compared with approximately RMB1,178.3 million as at 31 December 2010.

* *For identification purpose only*

STAFF INFORMATION

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

	At 31 March 2011	At 31 December 2010	At 31 March 2010
Research and development	**1,496**	1,322	1,595
Operation and marketing	**368**	534	565
Accounting, finance and general administration	**241**	371	423
Total	**2,105**	2,227	2,583

As at 31 March 2011, we had a total of 2,105 employees (31 December 2010 and 31 March 2010: 2,227 and 2,583, respectively), 806 of which are game developers of the research and development department, representing approximately 38.3% of the total number of staff.

The number of employees of mobile Internet business as at 31 March 2011 under research and development was 27 (31 December 2010 and 31 March 2010: 25 and 26, respectively); and the number of employees of integrated application development as at 31 March 2011 was 77 (31 December 2010 and 31 March 2010: 86 and 149, respectively).

The number of employees of mobile Internet business as at 31 March 2011 under operation and marketing was 176 (31 December 2010 and 31 March 2010: 166 and 167, respectively).

There was no employees of integrated application development as at 31 March 2011 under accounting, finance and general administration (31 December 2010 and 31 March 2010: 9 and nil, respectively); and the number of employees of other new business divisions as at 31 March 2011 was 2 (31 December 2010 and 31 March 2010: 61 and 58, 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 March 2011, 31 December 2010 and 31 March 2010.

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

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

During the period under review, the Group has endeavoured to maintain its leading market 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 business growth momentum of mobile Internet industry in the PRC, the Group has continued its focus on developing its mobile Internet business as another source of business growth in addition to online games.

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 maintain interest in the games among online players and bolster the popularity of its games.

During the period under review, the Group has continued to introduce new expansion packs to enrich its existing games. We have launched a new Chinese expansion pack "Soul of Steel" for Zero Online in March 2011.

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 during the period under review.

In respect of self-operated games, we have launched the expansion pack "The Returning Light" for Conquer Online in French, Spanish, Arabia in the first quarter of 2011. We expected the offer of additional in-game items and premium features to bolster the popularity of its online games.

The Group has entered into other overseas markets through close cooperation with local major operators. We have licensed its own in-house developed online games in various countries, including Hong Kong, Malaysia, Macau, Taiwan, Brazil and Vietnam, to attract a larger user base.

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 2010, the Group has 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 improved and an open beta testing is expected to be carried out in the second half of 2011.

Mobile Internet Business

During the period under review, with more efforts being 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 further increased. It becomes a key project in the future business development of the Group.

In first quarter of 2011, the Group continues to launch self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. As of March 2011, the total number of users of the 91 Series mobile phone software (including 91 Panda Reader, 91 PC Suite, etc.), one of the advanced mobile phone applications in the PRC, had breakthrough its own record.

The Group has further introduced updated versions of mobile games during the period under review. These games also provide numerous interactive features for players and their friends, in order to enhance the loyalty of the game players.

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.

As of 31 March 2011, the mobile Internet business of the Group has 203 employees, representing approximately 9.6% 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 March 2011, the Group's overall staff headcount was 2,105, of which 1,496 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 development capabilities in games 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.

In respect of its mobile Internet business, it is expected that the increasing 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 to be carried out in the second half of 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. We expected its closed beta testing will be carried out in 2011.

Mobile Internet Business

The Group will further develop mobile Internet products, including smart-phone software applications and games for mobile phones. By continuously launching updated versions for existing products, the Group can offer online users with more user-friendly product experience and cater their needs to strengthen 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.

* *For identification purpose only*

The Group is optimistic about expanding the mobile Internet business in the PRC. For the future development of this expanding mobile Interent business, four subsidiaries of the Company have commenced operations since April 2011 independently. They are 91 Limited, Talent Zone Holdings Limited, Fujian Bo Rui Websoft Technology Ltd. (福建博瑞網絡科技有限公司) and Fuzhou BoYuan Wireless Websoft Technology Ltd. (福州博遠無綫網絡科技有限公司).

On 30 May 2011, a share purchase agreement (the "Share Purchase Agreement") was entered between 91 Limited ("91 Limited"), an indirect wholly owned subsidiary of the Company, and investors who collectively are also substantial shareholders of the Company, for the issue and sale of 15,384,000 preferred shares of 91 Limited at a consideration of USD3,999,840. The preferred shares account for approximately 17.9% of the share capital of 91 Limited upon the full conversion of the preferred shares. The holders of the preferred shares have the right to convert the preferred shares to ordinary shares at the conversion price of USD0.26 upon a qualified initial public offering or the receipt of notice for conversion from 91 Limited. 91 Limited has the right to redeem all preferred shares at the redemption price of USD0.26 per preferred share plus cumulative rate of return of 5% per annum and any declared but unpaid dividends on the preferred shares after receipt of written request signed by the holders of at least two-third of the preferred shares at any time after the fifth but not later than the tenth anniversary of the issuance date of preferred shares.

As of 30 May 2011, the investors had advanced 91 Limited an aggregate amount of USD1,500,000, of the loan which is unsecured, non-interest bearing and repayable on demand. It is intended that such indebtedness would be utilised to partially set off the consideration under the Share Purchase Agreement.

Further details of the Share Purchase Agreement are set out in the announcement of the Company dated 30 May 2011.

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. The Group will further invest in and strengthen its 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.

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")

In 2010, the Group had 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.

The Group acquired parcel of land, buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC in 2010.

As at 31 March 2011, the Group had capital commitments in relation to the development of the Project of approximately RMB205.8 million, in which the Group had settled approximately RMB55.2 million.

During the period under review, the Group does not acquire any land, except for the acquisitions 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 2009 and its objectives are to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff. We had successfully enhanced the mobility of staff and maintained the momentum of the Group. This project also lowered the total labour cost as shown in the 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 March 2011, 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 (Chapter 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	272,076,220 (L)	51.47%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Dejian *(Note 3)*	Shanghai Tiankun Digital Technology Ltd. ("NetDragon (Shanghai)")	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and through controlled corporations	271,876,220 (L)	51.43%
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	270,476,220 (L)	51.17%
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 4.93%, 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 51.17% 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 March 2011, 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 March 2011, 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	26,100,400 (L)	4.93%
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 March 2011.

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. No option has been granted during the three months ended 31 March 2011 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 March 2011, total awarded amount (the "Awarded Amount") of HKD16,094,000 was awarded to a number of selected employees. The awarded shares, which purchased with the Awarded Amount and allocated by the Trustee from the total number of shares purchased by the Trustee on the market out of cash paid by the Company, will be transferred to the selected employees at nil consideration upon vesting between 6 November 2008 and 6 November 2012, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the three months ended 31 March 2011.

AUDIT COMMITTEE

In compliance with Rules 3.21 and 3.22 of the Listing Rules, the Company established the Audit Committee with written terms of reference. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems of the Group. The Audit Committee comprises three members, Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas who are the independent non-executive Directors. Chao Guowei, Charles is the chairman of the Audit Committee.

The Group's unaudited consolidated results for the three months ended 31 March 2011 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2011, 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, 15 June 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.