NetDragon Websoft Inc.

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8288

Annual Report 07

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of data dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Dejian *(Chairman)*
Mr. Liu Luyuan *(Chief Executive Officer)*
Mr. Zheng Hui
Mr. Chen Hongzhan

Non-executive Directors

Mr. Lin Dongliang
Mr. Zhu Xinkun

Independent Non-executive Directors

Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung
Mr. Liu Sai Keung, Thomas

COMPLIANCE OFFICER

Mr. Liu Luyuan

COMPANY SECRETARY

Ms. Tam Hon Shan, Celia, HKICPA, ACCA

QUALIFIED ACCOUNT

Ms. Tam Hon Shan, Celia, HKICPA, ACCA

AUDIT COMMITTEE

Mr. Chao Guowei, Charles *(Chairman of the Committee)*
Mr. Lee Kwan Hung
Mr. Liu Sai Keung, Thomas

REMUNERATION COMMITTEE

Mr. Lee Kwan Hung *(Chairman of the Committee)*
Mr. Chao Guowei, Charles
Mr. Liu Sai Keung, Thomas

NOMINATION COMMITTEE

Mr. Liu Sai Keung, Thomas *(Chairman of the Committee)*
Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Ms. Tam Hon Shan, Celia

COMPLIANCE ADVISER

First Shanghai Capital Limited

LEGAL ADVISER

Sidley Austin

AUDITORS

Grant Thornton
Certified Public Accountants

PRINCIPAL BANKERS

Bank of Communications (Fuzhou Branch)
Bank of America (Branch of Diamond Bar, CA)
The Hong Kong & Shanghai Banking Corporation
(Nathan Road Branch)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

ADVISOR ON RELATIONS WITH INVESTORS AND MEDIA

Porda International (Finance) PR Group

CORPORATE INFORMATION

STOCK INFORMATION

Listing Place:

Growth Enterprise Market of
The Stock Exchange of Hong Kong Limited

Stock Code:

8288

Listing Date:

2 November 2007

Stock Name:

NETDRAGON

REGISTERED OFFICE

Scotia Centre
4th Floor, P.O.Box 2804
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 306, 3rd Floor, Beautiful Group Tower
77 Connaught Road Central
Central
Hong Kong

COMPANY WEBSITE

www.nd.com.cn

COMPANY PROFILE

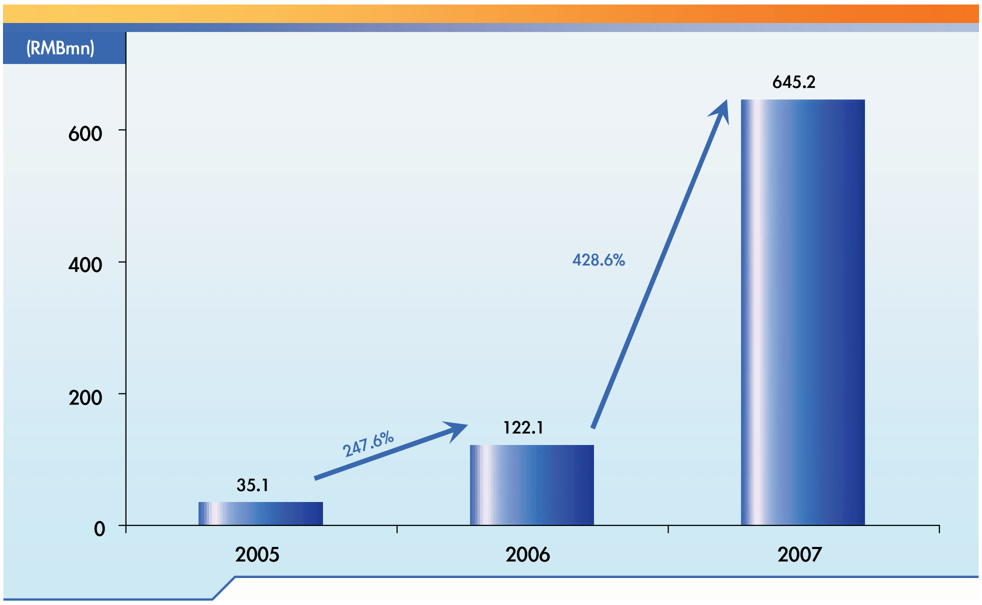
NetDragon Websoft Inc. ("NetDragon" or the "Company"), together with its subsidiaries (collectively referred to as the "Group") has been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 2 November 2007 (Stock Code: 8288).

The Group was established in 1999 and the then principal business was to provide Internet services. We are one of the leading online game developers and operators in the People's Republic of China (the "PRC"). We have successfully developed a range of MMORPGs catering to various types of players. We operate our online games under the free-to-play business model (the "FTP model") which encourages more players to experience our games. Under this model, our revenue is generated by selling virtual items.

We possess strong game development capabilities. Our integrated game development process comprising game design, programming, graphics and testing, enables us to control all the cost, quality and pace of development. With our strong online game development capability, we can launch new games in a timely and efficient manner to grasp business opportunities, upgrade our existing online games to prolong their life cycle, increase the Group's revenue and enhance the popularity of our online games.

To date, we have successfully launched and been operating various flagship online games with diversified themes, including Eudemons Online, Conquer Online, Zero Online, Tou Ming Zhuang Online, Era of Faith and Monster & Me. We also provide multiple language versions for our selected online games, including English, French and Spanish versions. Currently, we have a number of online games in our development pipeline, including Heroes of Might and Magic Online, Way of the Five and Tian Yuan.

i. Revenue growth



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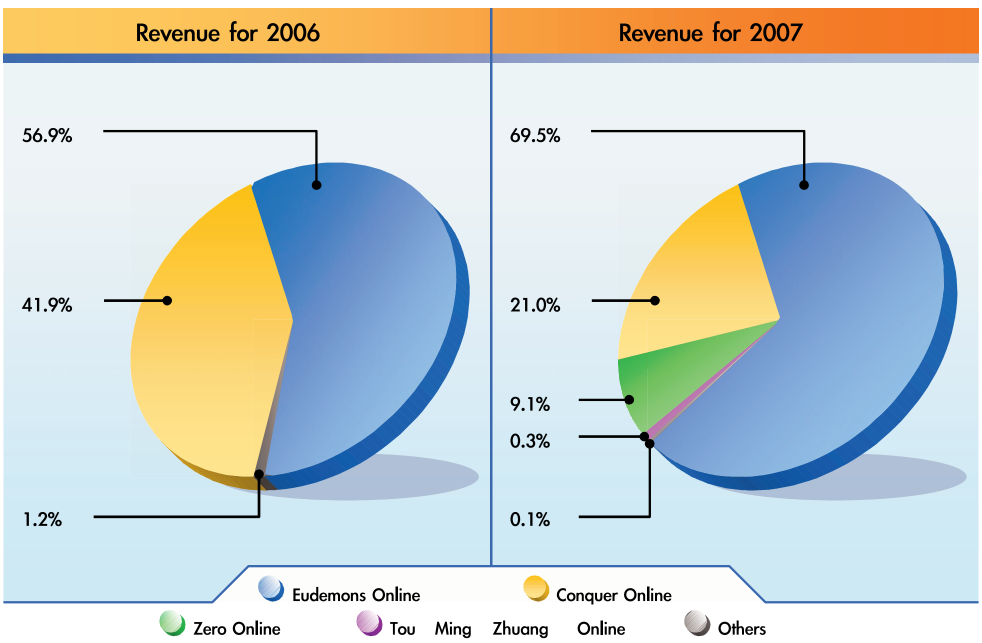
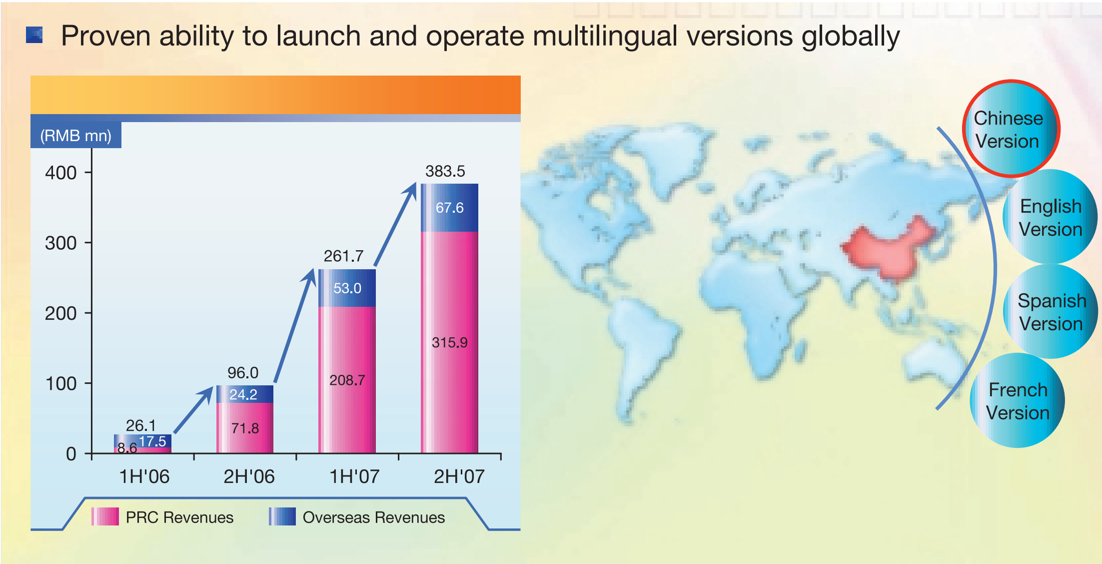


FINANCIAL HIGHLIGHTS

iii) Revenue by geographic segments



iv) Growth in profit and margin

(RMB ' 000)	For the year ended 31 Dec		
	2006	2007	Change (%)
Revenue	122,061	645,214	428.6%
Gross Profit	110,882	608,351	448.6%
Gross Profit Margin	90.8%	94.3%	3.5%
Operating Profit	51,545	427,081	728.6%
Operating Margin	42.2%	66.2%	24.0%
Net Profit	42,985	374,837	772.0%
Net Profit Margin	35.2%	58.1%	22.9%
Earnings Per Share - Basic(RMB)	12.21 Cents	85.01 Cents	596.2%

CHAIRMAN'S STATEMENT

Mr. Liu Dejian
Chairman

To all shareholders:

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present to the shareholders the first annual report of the Group for the year ended 31 December 2007 (the "Year") and to express our gratitude to the shareholders and our entire staff.

The Group has been dedicated to improving our game development capabilities, expanding the range of online games as well as increasing profitability with the aim to enhance the shareholders' interest. The Group's successful listing on the GEM of the Stock Exchange on 2 November 2007 marks a milestone for the Group's development. The proceeds from listing provide the necessary funds for future development of the Group. Such development includes strengthening our game development capabilities, enhancing the integrated operation model, enriching our product portfolio and extending life cycles of our online games, which will reinforce our competitive strength and our leading position in the industry.

FINANCIAL RESULTS

I am pleased to announce that with concerted efforts of our entire staff, the Group archived remarkable results during the Year. Our revenue was approximately RMB645,214,000 for the year ended 31 December 2007, representing an increase of 428.6% as compared with the same period last year. Gross profit was approximately RMB608,351,000, representing an increase of 448.6% as compared with the same period last year. Profit for the year was approximately RMB374,837,000, representing an increase of 772.0% as compared with the same period last year. As at the balance sheet date, cash and cash equivalent and deposit balances were approximately RMB1,701,380,000 without any debt, reflecting the Group's healthy capital structure.

DIVIDENDS

As a token of appreciation for the support from the shareholders of the Company, the Board proposed to distribute final dividend of RMB0.4 per share for the financial year ended 31 December 2007 after taking into account of financial positions, cash flows, operation and capital requirements and future development needs of the Company. The Board believes that our stable financial conditions and cash flows can fund our future development. We will spend every effort to bring satisfactory rewards to our investors.

BUSINESS REVIEW

Year 2007 is a fruitful year for the Group. With continuous flourishing development of the PRC's Internet market, the number of Internet users in China reached 210,000,000 as at 31 December 2007 and was the second largest in the world (second only to USA) according to China Internet Network Information Centre. Meanwhile, Internet penetration was also on an upward track, bringing phenomenal business opportunities to the Group. To capitalise on these opportunities, we have upgraded the existing online games of Conquer Online and Eudemons Online, and launched a new robot-fighting game, Zero Online, in late April 2007. During the period from its launch to the end of 2007, Zero Online had recorded PCU and ACU of approximately 91,000 and 36,000, which contributed approximately RMB58,755,000 to the revenue of the Group.

There has been major breakthrough in our business during the Year. We established an exclusive cooperative relationship with a famous film-making company, China Film Group Corporation, to develop a new online game Tou Ming Zhuang Online. Tou Ming Zhuang Online was developed based on the theme, contents and plots of the film "The Warlords" and has been launched in sync with the film's premiere. During the period from its launch to the end of 2007, Tou Ming Zhuang Online had recorded PCU and ACU of approximately 20,000 and 6,000. In addition, we had also established cooperative partnerships with well-known Internet portals, namely Beijing Sina Information Technology Co. Ltd. and Shenzhen Tencent Computer Systems Company Limited to expand the Group's business channels. With persistent efforts, the Group obtained various awards and recognition during the Year. More importantly of which, we were awarded as one of the "China best Small & Medium-sized Enterprises 2008 (2008中國潛力企業)" by "Forbes" and Fujian TQ Digital Inc. ("TQ Digital") was honored as the Top 10 Game Developers in China for 2007 by CGPA.

Further, the Company formulated the game development proposal of Disney Fantasy World which is a 2.5D turn-based MMORPG targeting child and young adult audiences in January 2008. The Disney Fantasy World is currently under development and its close beta testing is expected to conduct in the first quarter of 2009 and to launch the game in the first half of 2009.

Meanwhile, the Group has been dedicated to maintaining and enhancing its corporate governance level to ensure the relevant decisions were made in the interest of the shareholders as a whole. We have also been committed to maximising shareholders' returns.

In addition to the remarkable progress in improving financial results, the Group also strengthened its competitive edge. I believe our efforts will bring more brilliant outcome in the foreseeable future.

OUTLOOK

Currently, the growth of the online game market is gathering momentum. The increasing number of Internet users and growing penetration rate of Internet in China will lay a favourable foundation for the sustainable development of the online games industry. We anticipate that the FTP model will continue to be the main stream operation model with evolution on the FTP model is expected. As to the types of online games, we will offer wider range of online games to cater for different types of players.

With increasing capabilities for game development, growing operating revenue and expanding online game portfolio, the Group believes that it will continue to benefit from the market opportunities.

We will strive for improving our game development capabilities and cooperation opportunities with international institutions in the future.

APPRECIATION

Finally, on behalf of the Board, I would like to extend our sincere gratitude to the shareholders and investors for their continued support and to our entire staff for their efforts during the past year!

On behalf of the Board
Liu Dejian
Chairman

Hong Kong, 20 March 2008

(1) INDUSTRY REVIEW

With the blossoming PRC economy in 2007, the online game market also experienced prosperous development. The growth rate of online games surpassed the Internet growth rate in China. According to "China Game Industry Survey Report of 2007 (2007年度中國遊戲產業調查報告)" dated 16 January 2008, online game players in China reached a record high of over 40 million in 2007, half of which were paid online game players. It is estimated that the number of online game players in China in 2012 will increase by two-fold to 84.6 million. In addition, according to "China Gaming 2007-2011 Forecast and Analysis" proposed by IDC in April 2007 (the "IDC Report"), it is expected that the revenue generated from online games in China will amount to US$3 billion in 2011, representing a CAGR of 30.2% from 2006 to 2011. Therefore, the China online game industry has ushered in a new phase of healthy and stable development after years of explorations. This favorable environment enables the Group, as a leading online game developer and operator in the PRC, to rapidly develop its online games and grasp substantial business opportunities.

(2) FINANCIAL REVIEW

Revenue

Our total revenue for the year ended 31 December 2007 was approximately RMB645.2 million, representing an increase of 428.6% as compared to approximately RMB 122.1 million for the same period last year. The increase of our total revenue was mainly due to the significant increase in the revenue of our existing games, Conquer Online and Eudemons Online. Revenue from Conquer Online and Eudemons Online amounted to approximately RMB135.3 million and RMB448.6 million respectively. In addition, revenue from the Group's newly-launched game, Zero Online, was approximately RMB58.8 million, which was a new source to drive up the overall revenue growth during the year.

The table below sets out the breakdown of our revenue by online game:

	Year ended 31 December			
	2007		2006	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue
Eudemons Online	**448,603**	**69.5**	69,489	56.9
Conquer Online	**135,326**	**21.0**	51,112	41.9
Zero Online	**58,755**	**9.1**	—	—
Tou Ming Zhuang Online	**1,816**	**0.3**	—	—
Others	**714**	**0.1**	1,460	1.2
Total revenue	**645,214**	**100.0%**	122,061	100.0%

Revenue from Eudemons Online was approximately RMB448.6 million, representing an increase of approximately 545.6% as compared with RMB69.5 million for the same period last year. Revenue from Conquer Online for the year ended 31 December 2007 was approximately RMB135.3 million, representing an increase of approximately 164.8% as compared with RMB51.1 million for the same period last year. Zero Online which was launched in April 2007 recorded revenue of approximately RMB58.8 million and Tou Ming Zhuang Online which was launched in December 2007 recorded revenue of approximately RMB1.8 million.

	Year ended 31 December	
	2007	2006
PCU		
Eudemons Online	**574,000**	325,000
Conquer Online	**102,000**	82,000
Zero Online	**91,000**	—
Tou Ming Zhuang Online	**20,000**	—

	Year ended 31 December	
	2007	2006
ACU		
Eudemons Online	**269,000**	70,000
Conquer Online	**64,000**	52,000
Zero Online	**36,000**	—
Tou Ming Zhuang Online	**6,000**	—

PCU and ACU of Eudemons Online for the year ended 31 December 2007 were approximately 574,000 and 269,000 respectively, representing increases of approximately 76.6% and 284.3% respectively as compared with 325,000 and 70,000 respectively for the year ended 31 December 2006.

PCU and ACU of Conquer Online for the year ended 31 December 2007 were approximately 102,000 and 64,000 respectively, representing increases of approximately 24.4% and 23.1% respectively as compared with 82,000 and 52,000 respectively for the year ended 31 December 2006.

For the year ended 31 December 2007, PCU and ACU of Zero Online which was launched in April 2007 were approximately 91,000 and 36,000 respectively.

For the year ended 31 December 2007, PCU and ACU of Tou Ming Zhuang Online which was launched in December 2007 were approximately 20,000 and 6,000 respectively.

Gross profit and gross margin

Our gross profit and gross margin were approximately RMB608.4 million and approximately 94.3% respectively for the year ended 31 December 2007 as compared with approximately RMB110.9 million and 90.8% respectively for the same period last year. Gross margin increased by 3.5%, which was mainly due to the increased player usage.

Selling and marketing expenses

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

Selling and marketing expenses for the year ended 31 December 2007 increased by approximately 484.2% to approximately RMB80.8 million as compared with the same period in 2006. The increase in the amount of selling and marketing expenses was mainly attributable to our increased advertising and promotion expenses for Eudemons Online and Zero Online, and the increased staff costs as we raised employee compensations. The advertising and promotion expenses for Eudemons Online and Zero Online included advertisements on various online platforms and Internet cafe´s. The proportion of selling and marketing expenses to the total revenue for each of the year ended 31 December 2006 and 2007 was approximately 11.3% and 12.5%, respectively.

Administrative expenses

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

Administrative expenses increased by approximately 118.2% to approximately RMB50.1 million for the year ended 31 December 2007 as a result of the continuous expansion of our online game business. The increase of our staff costs was due to the expansion of our administrative team in line with the expansion of development team and the increase of compensation of employees during the year ended 31 December 2007. The increase in our travel and entertainment expenses and other administrative expenses for the year ended 31 December 2007 were primarily driven by the significant increase of our business development needs. The proportion of administrative expenses to total revenue for each of the year ended 31 December 2006 and 2007 was approximately 18.8% and 7.8%, respectively.

Development costs

Our development costs primarily consist of staff costs and other development-related expenses. Development costs increased by approximately 190.3% to approximately RMB37.3 million for the year ended 31 December 2007 as compared with the same period in 2006. The increase in our development costs was mainly due to the expansion of our development team and the increase of their compensation during the year ended 31 December 2007. We increased the compensation in order to provide a competitive and attractive increment in the basic salary and distribution of discretionary bonus due to the success of Eudemons Online and to further motivate employees.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Group for the year ended 31 December 2007 was approximately RMB374.9 million, representing an increase of approximately RMB332.0 million as compared with approximately RMB42.9 million of the same period last year, which was mainly due to the increased popularity of our online games and the fact that our revenue increased at a substantially higher rate than that of our operating expenses.

(3) BUSINESS REVIEW

Development of existing games

We provided upgrades of Eudemons Online, Conquer Online, Zero Online and Tou Ming Zhuang Online to players weekly for free downloads. During the period under review, we also provided several major upgrades for Eudemons Online, Conquer Online and Zero Online. In October 2007, Eudemons Online was upgraded by introducing castle building element to the game.

In August 2007, we enhanced Conquer Online by upgrading the automatic navigating and team formation systems and improving the graphic standard.

In December 2007, we had enhancements for Zero Online, including introduction of new types of robots introduction of large-scale galaxy wars and new commanders, introduction of new weapons and combating format and upgrade of the team formation system.

We formulated the game development proposal of Tou Ming Zhuang Online during the second half of 2007 and commenced the closed-beta testing in November 2007. Tou Ming Zhuang Online was launched in December 2007 in the PRC, matching with the commencement of showing period of the movie in the PRC. In view of our achievement in Tou Ming Zhuang Online, we have started discussion for the right to operate the game in other countries.

Marketing

We operated our online games under the FTP model. Players could download games without initial costs while our revenue was generated from the sale of selling virtual items. This FTP model enabled us to quickly attract new players to experience our online games. Players could purchase various virtual items to enhance the experience of games, extending the life cycle of our games.

Word-of-mouth referral was a major channel for promoting our online games. Besides, we promoted our games through two channels: (i) in-game marketing; and (ii) marketing through external channels. As to in-game marketing, we offer bonus game points and organise in-game events. As to marketing through external channels, we posted advertisements in various Internet portals and online game websites.

To strengthen our marketing capability, we have also engaged Effort Ogilvy (Fujian) Advertising Co. Ltd. (“Ogilvy”) as our marketing consultant to design, manage and help implement our marketing strategy in the PRC.

Distribution and payment

We have established the following distribution and payment channels with extensive coverage in the PRC and the overseas markets:

— Direct sales;
— Pre-paid card sales through distributors; and
— Cooperation channels.

The table below is a breakdown of our online game revenue by our different distribution and payment channels for the year ended 31 December 2006 and 2007:

	Year ended 31 December			
	2007		2006	
	RMB'000	%	RMB'000	%
Direct sales				
— online payment systems	**401,160**	**62.2**	73,893	60.5
— other direct sales channels	**183,210**	**28.4**	23,045	18.9
Pre-paid card sales through distributors	**37,551**	**5.8**	21,856	17.9
Cooperation channels	**23,293**	**3.6**	3,267	2.7
Total	**645,214**	**100.0**	122,061	100.0

Direct sales

Our direct sales includes (i) online payment systems; and (ii) other direct sales channels. Under our online payment systems, players may credit their game accounts through our online payment service providers. As at 31 December 2007, we had an aggregate of seven online payment service providers, covering most of the major banks in the PRC, of which players may credit their game accounts by debiting their bank accounts, credit cards or debit cards online. Under our other direct sales channels, players in the PRC may credit their game accounts through our distribution partners. Distribution partners market and sell their own virtual points by issuing pre-paid cards or other distribution and payment methods through their platforms. In addition, players can directly credit their game accounts by wire transfer.

Pre-paid cards sales through distributors

Our pre-paid cards are sold in both virtual and physical forms through third party sales distributors. Each pre-paid card contains a unique access code and password that enables players to credit their respective game accounts.

Cooperation channels

Our certain online games are operated through the platforms of cooperation partners including TOM.com operated by Beijing Lei Ting Wan Jun Network Technology Limited and the online platforms operated by Shenzhen Xunlei Online Technology Company Limited and Beijing Sina Information Technology Co. Ltd. We share the revenue under such cooperation arrangements.

Game Development

Currently, the Group has three 2.5D MMORPG games in the pipeline, i.e. Heroes of Might and Magic Online, Way of the Five and Tian Yuan.

Way of the Five (previously named as Happiness Q)

We commenced the closed beta testing and open beta testing in the fourth quarter of 2007 and expected to launch the game in the second quarter of 2008.

Tian Yuan (previously named as Piao Miao Online)

We have commenced the closed beta testing and expected to launch the game in the third quarter of 2008.

Heroes of Might and Magic Online

We have commenced the closed beta testing and expected to launch the game in the second quarter of 2008.

Activities Participated during the Period

The Group has been active in participating and introducing various marketing activities to further enhance the recognition of the Group. We participated and organised a series of activities, including the Cross-Strait Fair for Economy and Trade, 中國海峽成果交易會 (China Cross-Strait Technology and Projects Fair), the Chinese Game Industry Annual Conference, CHINAJOY (China Digital Entertainment Expo and Conference), the press conference held in Beijing on engaging Huang Jianxiang, a well-know sports commentator in China, as the spokesman for Eudemons Online, and the strategic cooperation with China Film Group Corporation along with the contract signing ceremony for transferring the right to adapt the film of “The Warlords” into online game Tou Ming Zhuang Online, etc.

Awards Received during the Period

We received the following awards in 2007:

1. NetDragon received seven "Golden Phoenix" awards in the Chinese Game Industry Annual Conference 2007.

Awards	Product/Company
Top 10 Game Developers in China for 2007	TQ Digital
Top 10 Game Operators in China for 2007	NetDragon (Fujian)
Award for Overseas Development of Chinese Domestic Games for 2007	NetDragon (Fujian)
Most Anticipated Online Game for 2008	Heroes of Might and Magic Online
Outstanding Game Marketing Corporation	NetDragon (Fujian)

2. Online Game Pioneer Corporation in China for 2007 (2007年度中國遊戲業新銳)

Awards	Company
China Best Small and Medium-sized Enterprises	NetDragon Websoft Inc.

3. Tencent Online Game Award List for 2007 (2007騰訊 (QQ.com) 中國網絡遊戲風雲榜)

Awards	Product/Company
Top 10 Online Game Developers in China for 2007	NetDragon (Fujian)
Most Popular Online Game for 2007	Eudemons Online
Best Originality Award for 2007	Eudemons Online
Best MMORPG for 2007	Eudemons Online
Most Anticipated Online Game for 2008	Way of the Five
	Tou Ming Zhuang Online
	Heroes of Might and Magic Online

4. Way of the Five was honored as Online Game Suitable for junior by the Ministry of Culture

(4) LIQUIDITY AND CAPITAL RESOURCES

For the year ended 31 December 2007, we had cash on hand and bank deposits of approximately RMB1,700.1 million as compared with approximately RMB60.8 million for the year ended 31 December 2006.

For the year ended 31 December 2007, the Group had cash deposited with an online payment service providers of approximately RMB1.3 million as compared with RMB5.5 million for the year ended 31 December 2006.

For the year ended 31 December 2007, the Group had net current assets of approximately RMB1,702.8 million as compared with approximately RMB77.3 million for the year ended 31 December 2006.

(5) GEARING RATIO

As we did not have any interest bearing bank loans, our gearing ratio was zero as at 31 December 2006 and 31 December 2007.

(6) CAPITAL STRUCTURE

As at 31 December 2007, the Group's total equity amounted to approximately RMB1,769.4 million (2006: RMB104.7 million). Net current assets of the Group amounted to approximately RMB1,702.8 million (2006: RMB77.3 million).

(7) USE OF PROCEEDS FROM PLACING

As at 31 December 2007, the Group used HK$27.2 million of net proceeds raised from the placing of the company's shares on GEM. Details of comparison between proposed applications and actual applications of net proceeds raised are set out in the section of "Report of the Directors" under the paragraph "Comparison of business objectives and actual business progress".

(8) FOREIGN CURRENCY RISKS

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

(9) STAFF INFORMATION

As at 31 December 2007, we had a total of 788 employees (2006: 404), 412 of which are game developers, representing 52.3% of the total number of staff.

(10) PROSPECTS AND OUTLOOK

Online games are experiencing remarkable growth. With the increasing penetration of online games into people's daily life, the online game industry will achieve more rapid development and more online games with greater diversity will be introduced to players. According to IDC Report, CAGR of online game revenue is expected be 30.2% from 2006 to 2011. This favorable environment will place a solid foundation for sustainable development of the online games industry.

We believe FTP model still will be extensively adopted in China. Revenue channel will shift from billing the time that players spent on playing games to selling virtual commodities and value-added services. As to types of games, MMORPGs are expected to continue to generate most of the revenue in the online game industry, while casual games are also expected to demonstrate a strong growth momentum. As the PRC domestically developed online games become more successful in the domestic market, Chinese online game companies will become more mature and begin to export more "homemade" games. To distinguish from other competing entertainment industries, online game companies will develop games of greater diversity.

The Group will further strengthen our game development capabilities, enhance our integrated operation model, enrich our product portfolio and extend life cycles of our games. In addition, we will expand our business through acquisition and cooperation with external parties, strengthen our corporate image and promote our games. Based on the strengths that we have, it is believed that the Group will continue to benefit from huge business opportunities in the online game market of exceptional development potential.

The Board has made an application to the Stock Exchange for the listing of the Company's shares on the main board of the Stock Exchange by way of introduction and, when successfully listed, the Company would withdraw voluntarily the listing of its shares in issue on GEM. The Company will make further announcement to keep the Shareholders informed of such progress in due course.

CORPORATE CULTURE

NetDragon is an ambitious company and has unique corporate culture. NetDragon emphasises the importance of teamwork. After years of operation, NetDragon has established its own corporate culture. “Learning”, “Innovation”, “Sincerity” and “Happiness” are the elements of our corporate culture valued by each employee of NetDragon.

Facing the ever-changing market challenges and opportunities, NetDragon evolves continuously based on the two principles of “Human Resource Development” and “Provide Happy Experience to Customers”. NetDragon creates a “dreamland” full of joys to be shared by our staff, customers and partners.

“Learning”

“Learning” can improve the competitiveness of NetDragon. Learning is beneficial to personal lifelong pursuits and is essential to an organisation’s sustainable development. Learning can also enhance the value of staff and the competitiveness of the Company, which lends to the development of both the staff and the Company.

“Innovation”

Innovation is one of the element of NetDragon’s corporate culture. In the Internet era, we pursue excellence and we yearn for excellent accomplishments through innovations.

“Sincerity”

Sincerity is a basic value shared among the members of NetDragon. Sincerity is necessary in virtual world. NetDragon appreciates frankness. We care about “What is right” instead of “Who is right”. We share the sense of belonging.

“Happiness”

Happiness is our basic value. Creative industry aims to produce happiness. People yearn for happiness which is one of the desired outcome for personal communication. Happiness in NetDragon comes from sense of growth by learning, sense of accomplishments by innovation and sense of belonging through sincere relationship among all staff of NetDragon.

“Learning”, “Innovation” and “Sincerity” evolve from “Happiness” which in return create happiness. The Group believes that enjoyable games can only be developed in happy working environment. Happiness is passed to players, the network community as well as the real world.

STAFF RELATIONSHIPS AND WELFARE

HUMAN RESOURCES

As at 31 December 2007, the Group had a total of 788 staff. NetDragon realizes that human resources are the most precious assets of the Group and therefore much importance is placed to human resources management. Our efforts spent on human resources management are highly regarded. NetDragon was honored by "Fortune" as "Excellent Employer — the Most Suitable Company to Work for in China" and was the only domestic online game developer among the 20 winners of "Excellent Employers". To attract and retain talents, we adopt the following strategies:

Training

The Group organises various in-house training programs for its staff of all levels and functions. New recruits will receive orientation training to understand the corporate culture of NetDragon: "Learning", "Innovation", "Sincerity" and "Happiness" with the aim to provide them with the most enjoyable experience and help them to join the NetDragon family in a quick and easy way. The Group also provides regular on-the-job training by organising courses which are well received by our staff. Experts are also invited to conduct courses covering studies on management, marketing management, human resources management and organisational behavior etc. to enhance the management skill and professional standards of our staff.

Training System

Training is crucial to the Group's human resources management and development. In May 2007, we established the first corporate university ("NetDragon University") in the online game industry in the PRC. NetDragon University is our training and development center and is our human resources base which is to support our development strategies. The university creates a pleasant learning environment for our staff so that they will use their knowledge to contribute to us, our business partners, customers and the community. We believe the university will become an excellent corporate university with special characteristics of NetDragon.

The mission of NetDragon University is to "inherit the corporate culture and encourage the reform of NetDragon". The university has five colleges, one centre and one library, namely, game college, business college, development college, health care college, training college, knowledge management centre and NetDragon library. The university provides various specially designed training courses.

- Game college: to impart professional knowledge relating to game and promote the development of the game industry.
- Business college: to convey corporate strategies and improve management skill.
- Development college: to unleash potential brainpower, strengthen team coherence and establish pleasant working environment.
- Health care college: to relax body and mind, promote health care practices and healthy lifestyle.
- New Recruiters college: to help new recruits to adapt themselves to the Company so as to shorten their learning curve.

- Knowledge management centre: to develop the knowledge management (the "KM") platform and relevant tools, establish and improve KM system, develop the platform for online training and digital library.

Although each of the five colleges and the centre has different functions, together they form a systematic and effective training system.

Working Environment

We provide our staff with a friendly and enjoyable work environment. The offices of the Group are spacious and equipped with advanced facilities, including a 24-hours canteen. Such a good working environment not only improves the sense of belonging of our staff, it also enhances their efficiency.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Liu Dejian, aged 36, Chairman, Executive Director

Mr. Liu led us to become one of the PRC's leading online game development companies. He is mainly responsible for our overall business strategic development and is the chief game designer of our game development team. Mr. Liu leads the game development team on the design of our online game products. He formulates our development policy and contributes to our growth as a competitive online game operator and developer. Apart from his management and leadership, Mr. Liu constantly holds training seminars to further enhance the development of our human resources. Prior to starting Fujian NetDragon Websoft Co. Ltd. ("NetDragon (Fujian)"), Mr. Liu graduated with a Bachelor's degree of Science in Chemistry from University of Kansas in the USA in 1995. He had been the vice-president of Beso from 1995 to 2005. He was also the vice-president of Fuzhou 851 from 1995 to 2000 and then promoted to be the president since 2001. Mr. Liu was first introduced to the technology of Internet during his study in the USA when he established a website for marketing of softwares. Anticipating that Internet would have a good development opportunity in the PRC, he founded NetDragon (Fujian) in 1999 when he came back to the PRC. He was awarded as Most Influential Person within the Online Game Industry in China for 2007 (2007年度中國遊戲產業最具影響力人物) in the Chinese Game Industry Annual Conference 2007 in January 2008. He was appointed as vice-chairman of Fujian Province Association of Youth Entrepreneur in April 2006. He also obtained Fujian Youth Entrepreneur Achievement Award in April 2005, Go Tone Fujian IT Industry Top 10 Outstanding Youth in May 2005 and Certificate of Fujian Entrepreneurial Tutor of the Chinese Youth Business International Programme in June 2005. Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

Liu Luyuan, aged 34, Executive Director, Chief Executive Officer and one of the authorised representatives of the Company

Mr. Liu has over 10 years of experience in management and administration of technical institutions. Mr. Liu is mainly responsible for the overall management of the Group. Mr. Liu established the project management department and introduced the game project management system to ensure the standard of our games are in compliance with the standards. Mr. Liu is also responsible for the coordination with the governmental departments, media and the other external parties, under which he has built up our good reputation over years. Prior to joining us in 1999, Mr. Liu was the technical engineer of the information technology system project in Fujian Tumour Hospital and the section officer of the mechanic management system project in Fujian Provincial Health Bureau from 1997 to 1999. He was awarded as Online Game Pioneer in China for 2007 (2007年度中國遊戲產業新鋭人物) in Chinese Game Industry Annual Conference 2007 in January 2008. Mr. Liu graduated with a Bachelor's degree in Electronic and Mechanical Engineering from the University of Electronic Science and Technology in Chengdu in 1997. Mr. Liu is a brother of Liu Dejian and a cousin of Zheng Hui.

Zheng Hui, aged 39, Executive Director

Mr. Zheng is our Director responsible for the overall management and administration of the Group. Mr. Zheng manages our administrative department and provides supporting resources to our operation. Mr. Zheng also coordinates, supervises and manages the duties of our various departments. Mr. Zheng has more than 20 years of management and administration experience. He is one of the Founding Shareholders and has been appointed as the senior executive manager in NetDragon (Fujian) since 1999. Mr. Zheng is also the legal representative and executive director of Shanghai Tiankun Digital Technology Ltd ("NetDragon (Shanghai)") since 2004. Before founding NetDragon (Fujian) in 1999, Mr. Zheng worked in Beso and Fuzhou 851 from 1992 to 1999. He obtained a graduation certificate from the Continuing Education Institute of Beijing Normal University in 2000. Zheng Hui is the cousin of Liu Dejian and Liu Luyuan.

Chen Hongzhan, aged 35, Executive Director, Vice President, Chief Technology Officer

Mr. Chen is our chief technology officer. He worked as a game developer before joining the Group in 2001. The technical team led by Mr. Chen is responsible for the development procedure of our games and the technical supports to the production of our games. His technical supports and experience have raised the efficiency and quality of our game development department. He is an experienced online game developer with over 10 years of experience in the management of game development. He is mainly responsible for game development of our Company. Mr. Chen established his own online game studio from 1996 to 1998. Before joining us in 2001, Mr. Chen worked as the project manager in Chongqing Dazhong Software Company from 1998 to 2000 and a director in the online game department in Beijing Beijibing Technology Development Company Limited from 2000 to 2001. Mr. Chen graduated with a Bachelor's degree in Mechanical-Electrical Integration from the Beijing University of Aeronautics and Astronautics in 1995.

NON-EXECUTIVE DIRECTORS

Lin Dongliang, aged 45, Non-executive Director

Mr. Lin graduated with a Master's degree in Engineering Management in 1988 from Tsinghua University. He joined IDG Technology Venture Investment Inc. as its vice president in 1994, and has served as a general partner of IDG Technology Venture Investment since 1999. He has over 12 years of experience in venture investment. He was nominated by the IDG Group to the Board and was appointed as a non-executive Director on 15 December 2004. Mr. Lin is also a non-executive director of Superdata Software Holdings Limited, a company previously listed on GEM from 6 June 2003 to 18 May 2006 upon its withdrawal, since July 2002.

Zhu Xinkun, aged 42, Non-executive Director

Mr. Zhu was appointed as a non-executive Director on 1 April 2007. He has over 10 years of experience in corporate, commercial banking and venture investment. Prior to joining NetDragon, Mr. Zhu served as a research fellow of Japanese studies in Shanghai Institute for International Studies from 1988 to 1994, and was a representative in the Shanghai Representative Office of Nikko Securities Co., Ltd. from 1994 to 1999. He served as a manager in the corporate finance division of the Bank of Tokyo-Mitsubishi Shanghai Branch from 1999 to 2000 and a senior investment manager in Shenzhen Capital Group Co., Ltd. from 2000 to 2001. Mr. Zhu joined Shanghai Venture Capital Management Co., Ltd. as a managing director since 2001. Mr. Zhu is also a non-executive director of Arasor International Limited, a company listed on the Australian Securities Exchange. Mr. Zhu has been nominated by Happy Sunshine Limited to the Board. Mr. Zhu graduated with a Bachelor's degree in law from Fudan University in 1988, and a Master's degree in Economics from East China Normal University in 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 42, Independent non-executive Director

Mr. Chao was appointed as an independent non-executive Director on 15 October 2007. Mr. Chao is also the chairman of the audit committee, a member of our remuneration committee and nomination committee. Mr. Chao is the chief executive officer and director of SINA Corporation, a publicly listed company in Nasdaq. He has served as an experienced audit manager in PricewaterhouseCoopers LLP to provide audit and business consulting services for companies in Silicon Valley, California. He joined SINA Corporation as a vice president of finance in 1999 and has served as its co-chief operating officer, president and chief financial officer before his current position as the chief executive officer. He is a certified public accountant and a member of the American Institute of Certified Public Accountants. Mr. Chao is also an independent non-executive director of Focus Media Holding Limited, a publicly listed company in Nasdaq, and E-House (China) Holdings Limited, a company listed on the New York Stock Exchange. Mr. Chao graduated with a Master's degree in Professional Accounting from the University of Texas at Austin in 1993, a Master's degree in Journalism from the University of Oklahoma in 1991 and a Bachelor's degree in Journalism from the Fudan University in 1988.

Lee Kwan Hung, aged 42, Independent non-executive Director

Mr. Lee was appointed an independent non-executive Director on 15 October 2007. He is a partner of Woo, Kwan, Lee & Lo and the chief representative of Woo, Kwan, Lee & Lo's Beijing Office. Mr. Lee received his LL.B (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1997. Mr. Lee is currently a non-executive director of Mirabell International Holdings Limited and GST Holdings Limited and an independent non-executive director of GZI REIT Asset Management Limited (being the manager of GZI Real Estate Investment Trust) and Embry Holdings Limited, the shares of these companies are listed on the Stock Exchange. Besides, Mr. Lee had been an independent non-executive director of Magician Industries (Holdings) Limited from 1 February 2005 to 23 April 2005 and China Mining Resources Group Limited (formerly known as Innomaxx Biotechnology Group Limited) from 31 May 2005 to 7 February 2007, the shares of these companies are listed on the Stock Exchange. Mr. Lee is also a member of Advisory Committee of School of Professional Education and Executive Development of The Hong Kong Polytechnic University and a founding member of the Hong Kong Professionals and Senior Executives Association. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

Liu Sai Keung, Thomas, aged 35, Independent non-executive Director

Mr. Liu is the managing director of strategic investments of GroupM China. He was appointed as an independent non-executive Director in 15 October 2007. Mr. Liu is also the chairman of our nomination committee, a member of our audit committee and remuneration committee. He graduated with a MBA degree from The Anderson School at the University of California, Los Angeles, and a Bachelor's degree in Business Administration and a Master's degree in Finance from The Chinese University of Hong Kong in 1995 and 1999, respectively. He worked in Swire Pacific Limited from 1995 to 1999 and left as the marketing manager of its motor division. Prior to joining GroupM China in 2007, he served as a director in the Beijing office of Tom Online Limited, and a manager in the business development department of Tom Group Limited from 2003 to 2004. He has also served as an associate in the Investment Banking division of the New York office of Lehman Brothers Inc. and as a vice-president of Star Group China.

SENIOR MANAGEMENT

Wu Chak Man, aged 36, Vice President, Chief Financial Officer, General Manager of NetDragon (Shanghai)

After joining us in January 2004, Mr. Wu has been responsible for sales and marketing in the PRC, the overseas business development and the operations in the USA. Mr. Wu has contributed to the success of our online games in the overseas market. He is currently responsible for our corporate finance and financial management matters. Mr. Wu graduated with a Bachelor's degree in Economics from the University of California, Berkeley in 1994, and a Master's degree in business administration from Duke University in 2004. He has over 10 years of experience in business and management experience. He was the vice-president in the marketing of Beso from 1995 to 1999. From 2000 to 2002, he was the Chief Operating Officer of Octant Communications Inc.

Wu Jialiang, aged 31, Vice President, Director of TQ Digital and NetDragon (Fujian)

He graduated with a Bachelor's degree in Applied Mathematics from the University of Fuzhou in 1999. He has over eight years of experience in system management, server operation and anti-hacking. After joining us in 1999, he is responsible for the maintenance of game servers to ensure the timely application and implementation of advanced network technology. Mr. Wu has been the responsible officer in our technical department, value-added business department and VIP management centre.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Tam Hon Shan, Celia, aged 35, Financial Controller, company secretary, qualified accountant and one of the authorised representatives of the Company

Ms. Tam joined us in April 2007 and is responsible for the financial and accounting management and secretarial affairs of the Company. She graduated with a Bachelor's degree in business accounting from the University of Lincolnshire and Humberside in 2000. She is a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. She has over 10 years of experience in accounting and finance field.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting the annual report and the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 July 2004 and is an investment holding company. Its shares were listed on the GEM of the Stock Exchange on 2 November 2007.

The Group is principally engaged in online game development, including game design, programming and graphics, and online game operation.

Details of the principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2007 are set out in the consolidated income statement on page 52.

On 3 February 2007, NetDragon Websoft Inc. ("NetDragon (BVI)") declared a special dividend of RMB44,839,000 to its then equity holders.

On 20 June 2007, NetDragon (BVI) declared a special dividend of RMB34,230,000 to the Company. On the same date, the Company declared the same amount of dividend to its equity holders who were effectively the then equity holders of NetDragon (BVI).

The Directors now recommend the payment of a final dividend of RMB0.4 cents per share. The final dividend is expected to be payable on 2 May 2008 to shareholders on the register of members of the Company on 28 April 2008, amounting to approximately RMB216,093,000.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired buildings situated outside Hong Kong at a cost of RMB1,505,000, motor vehicles at a cost of RMB3,779,000 and computer equipments at a cost of RMB41,751,000.

Details of these and other movements in the property, plant and equipment of the Group during the year set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements of the Company's issued share capital are set out in note 23 to the financial statements.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in note 25 to the financial statements and the consolidated statement of change in equity respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2007, the Company's reserves available for distribution to shareholders were RMB216,474,000 (2006: Nil), which comprises the dividend reserve of RMB216,093,000 (2006: Nil) and retained profit of RMB381,000 (2006: Nil) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers accounted for 3.9% of the Group's total turnover for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for 96.1% and 27.7% respectively of the Group's total purchase for the year.

None of the Directors, their associates, or shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest suppliers and customers during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the year were as follows:

Executive Directors:

Mr. Liu Dejian *(Chairman)*
Mr. Liu Luyuan *(Chief Executive Officer)*
Mr. Zheng Hui
Mr. Chen Hongzhan

Non-executive Directors:

Mr. Lin Dongliang
Mr. Zhu Xinkun

Independent non-executive Directors:

Mr. Chao Guowei, Charles (Note 1,2,3,5)
Mr. Lee Kwan Hung (Note 1,3,4,5)
Mr. Liu Sai Keung, Thomas (Note 1,3,5,6)

Notes:

1. Member of Audit Committee
2. Chairman of Audit Committee
3. Member of Remuneration Committee
4. Chairman of Remuneration Committee
5. Member of Nomination Committee
6. Chairman of Nomination Committee

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

Each of the executive Directors has entered into a service contract with the Company and each of the non-executive and independent non-executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commenced on 15 October 2007 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term unless and until terminated in accordance with the terms of the service contract or by either party thereto giving to the other not less than three months' prior written notice. Each of the executive Directors will receive a salary which is subject to annual review at the discretion of the Board.

The salary payable to the each of the Directors may, subject to Shareholders' approval in general meeting, be revised by the Board each year as result of which the above rates may or may not be increased but, in any event, any increase shall not exceed 25% of the annual salary paid to the Director in the previous year.

Each of the executive Directors may also be entitled to a bonus payment in such amount as shall be determined by the Board in its absolute discretion provided that the aggregate sum of such bonus payments in any financial year shall, unless the Board shall determine otherwise, not exceed 1% of the audited consolidated net profit of the Company after taxation but before extraordinary items in the relevant financial year.

In accordance with the article of association of the Company, Chen Hongzhan, Zhu Xinkun and Liu Sai Keung, Thomas will retire by rotation. Zhu Xinkun has resigned from the group company of Happy Sunshine Limited, being the shareholder of the Company who appointed him to the Board. Accordingly, Zhu Xinkun will retire as a Director. Chen Hongzhan and Liu Sai Keung, Thomas, being eligible, will offer themselves for re-election at the forth coming annual general meeting of the Company. None of the Directors proposed for re-election at the forth coming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensations.

The Company has received annual confirmations of independence from Mr. Chao Guowei, Charles, Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas and considers them to be independent.

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

The shares of the Company were listed on GEM of the Stock Exchange on 2 November 2007. As at 31 December 2007, 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 SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange as at 31 December 2007, are as follows:

Name of Director	**Name of company**	**Capacity and nature of interests**	**Number of shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
Liu Dejian *(Note 2)*	The Company	Through controlled corporations	278,959,040 (L)	50.16%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Dejian *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Through controlled corporations	278,959,040 (L)	50.16%
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	278,959,040 (L)	50.16%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Zheng Hui *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Chen Hongzhan *(Note 4)*	The Company	Through a controlled corporation	13,000,000 (L)	2.34%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

2. Liu Dejian is interested in 95.4% of the issued share capital of DJM Holding Ltd., which in turn is interested in 32.98% of the issued share capital of the Company.

   Liu Luyuan is interested in 100% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 4.74% of the issued share capital of the Company.

   Zheng Hui is interested in 4.6% and 100%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 32.98% and 6.38%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.06% of the issued share capital of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Notes: (Cont'd)

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 50.16% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.7%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed and direct shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

4. Chen Hongzhan is interested in 99% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.34% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.34% 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 2007, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 26 of the Notes to the financial statements, no contracts of significance in relation to the Company's business, to which the Company was a party and in which a Director had a material interests, whether directly or indirectly, subscribed at the end of the year or at any time during the year.

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

The shares of the Company were listed on GEM of the Stock Exchange on 2 November 2007. So far as is known to the Directors, as at 31 December 2007, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group are as follows:

Name	**Name of Group member**	**Capacity and nature of interests**	**Number of ordinary shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM Holdings Ltd.	The Company	Beneficial owner	183,402,600 (L)	32.98%
Fitter Property Inc.	The Company	Beneficial owner	35,498,720 (L)	6.38%
Eagle World International Inc. *(Note 2)*	The Company	Beneficial owner	33,712,920 (L)	6.06%
Flowson Company Limited *(Note 2)*	The Company	Through a controlled corporation	33,712,920 (L)	6.06%
IDG Group *(Note 3)*	The Company	Beneficial owner and through controlled corporations	78,333,320 (L)	14.09%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000 (L)	99.00%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the BVI with limited liability and is owned as to 100% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.06% of the issued share capital of the Company through its shareholding in Eagle World International Inc.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Notes: (Cont'd)

3. The IDG Group is comprised of five limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG Technology Venture Investments, III L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 9.59%, 2.12%, 1.74%, 0.43% and 0.2%, 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 Technology Venture Investments III, L.P. is controlled by its sole general partner, IDG Technology Venture Investments III, LLC, which in turn is controlled by its managing members, Zhou Quan and Patrick J. McGovern.

   c) 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 L.td. IDG-Accel China Growth Fund GP Associates L.td. is held as to 35% by each of Zhou Quan and Patrick J. McGovern.

   d) IDG-Accel China Investors is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100% by James W. Breyer.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2007.

CONNECTED TRANSACTIONS

STRUCTURE CONTRACTS

Cooperation Framework Agreement

With a view to offer further protection to the interests of the Company and the shareholders as a whole by means of contractual arrangements, TQ Digital and NetDragon (Fujian) and its equity holders entered into the structure contracts ("Structure Contracts"), which superseded the cooperation arrangements between TQ Digital and NetDragon (Fujian) effective from 1 January 2007. Under the Structure Contracts, NetDragon (Fujian) is responsible to collect the revenue generated from the operation of the games. Through the Structure Contracts, we are able to recognize and receive the economic benefits of the business and operations of NetDragon (Fujian). The Structure Contracts enable TQ Digital to control over and to acquire the equity interests in and/or assets of NetDragon (Fujian) when permitted by the relevant PRC laws and regulations.

On 15 October 2007, TQ Digital and NetDragon (Fujian) entered into a cooperation framework agreement (the "Cooperation Framework Agreement") pursuant to which TQ Digital and NetDragon (Fujian) agreed to cooperate in the provision of services relating to the online game development for the operation of the online game business of NetDragon (Fujian). The Cooperation Framework Agreement and the terms of reference of the management committee (the "Management Committee") laid down the principles that the Management Committee shall have right to determine the amount of license and service fees payable by NetDragon (Fujian) with reference to the amount of expenditure incurred by NetDragon (Fujian) in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) NetDragon (Fujian) shall pay the maximum amount of fees to TQ Digital without incurring any loss for each financial year; and (ii) the net asset value of NetDragon (Fujian) shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000. Further details of Management Committee are set out in the section of "The Corporate Governance Report" under the paragraphs of "Management Committee". This principle will ensure that all of the net profit after tax of NetDragon (Fujian) in each financial year shall be paid to TQ Digital as service or license fees, and will give flexibility to the Management Committee to implement the Structure Contracts and its underlying principles more effectively in response to constantly changing PRC laws and regulation.

As a result of the Structure Contracts, TQ Digital is able to control NetDragon (Fujian) and NetDragon (Shanghai), a non-wholly owned subsidiary of NetDragon (Fujian) and accordingly, they are regarded as our subsidiaries and their results are to be consolidated into our financial statements. Since NetDragon (Fujian) and NetDragon (Shanghai) were under the common control of the same group of persons before and after our formation, the results and financial positions of NetDragon (Fujian) and NetDragon (Shanghai) are combined into our financial statements using merger accounting as if NetDragon (Fujian) and NetDragon (Shanghai) were part of us since their respective date of establishment or since the date when they first came under the common control.

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

Cooperation Framework Agreement (Cont'd)

In accordance with the terms of the Cooperation Framework Agreement, TQ Digital on 15 October 2007 entered into 1) cooperation and license agreements in respect of online games; 2) online games software development service agreement; and 3) technical support service agreement with NetDragon (Fujian), for the purpose of license, development of online games and provision of technical services from TQ Digital to NetDragon (Fujian). Details of the agreements are set out below:

Date of agreement signed	Name of agreement	Summary of agreement	Terms of agreement
15-10-2007 and 20-11-2007	Cooperation and license agreements in respect of online games	TQ Digital will license online game softwares to NetDragon (Fujian) for use in PRC	• 10 years commenced (1-1-2007 to 31-12-2016) • Consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
15-10-2007	Online game software development service agreement	TQ Digital will provide online software development service to NetDragon (Fujian)	• 10 years commenced (1-1-2007 to 31-12-2016) • Consideration of a service fee
15-10-2007	Technical support service agreement	TQ Digital would provide technical support services to NetDragon (Fujian)	• 10 years commenced (1-1-2007 to 31-12-2016) • Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues

Equity Interest Pledge Agreement

On 28 September 2007, TQ Digital, NetDragon (Fujian) and all equity holders of NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to TQ Digital a continuing first priority security interests over their respective equity interests in the registered capital of NetDragon (Fujian), representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by NetDragon (Fujian)'s equity holders under the Structure Contracts.

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

Agreement for the Exclusive Right to Acquire Equity Interest and Assets

On 15 October 2007, TQ Digital, NetDragon (Fujian) and all of the equity holders of NetDragon (Fujian) entered into an agreement for the exclusive right to acquire equity interest and assets, pursuant to which NetDragon (Fujian) and all its equity holders granted to TQ Digital or its designee (a) a right to acquire part or all of the equity interest in the registered capital of NetDragon (Fujian); and (b) a right to acquire part or all of the assets of NetDragon (Fujian) from the equity holders of NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by TQ Digital to the equity holders of NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law. If the minimum amount of consideration stipulated under the relevant PRC laws and regulations is higher than the nominal amount at the time of exercise of the acquisition right, Liu Dejian, Liu Luyuan and Zheng Hui had jointly, severally and irrevocably undertaken to reimburse the Company or its subsidiaries of any amount in excess of the nominal amount.

Equity Holders' Voting Rights Proxy Agreement

On 15 October 2007, all equity holders of NetDragon (Fujian) entered into an equity holders' voting rights proxy agreement (the "Proxy Agreement") with TQ Digital and NetDragon (Fujian), pursuant to which all equity holders of NetDragon (Fujian) have irrevocably authorised TQ Digital or a nominee designated by TQ Digital (which will likely be a director of TQ Digital) to exercise all their voting rights in NetDragon (Fujian). The term of the Proxy Agreement shall continue indefinitely for so long as NetDragon (Fujian) subsists in order to secure our control over NetDragon (Fujian).

The Stock Exchange has granted a specifc waiver to the Company from strict compliance with the connected transactions requirement of Chapter 20 of the GEM Listing Rules in respect of the Structure Contracts.

The Company's independent non-executive Directors have reviewed the Structure Contracts and the other contracts and confirm that the transactions carried out during the year ended 31 December 2007 have been entered into in accordance with the relevant provisions of the Structure Contracts and the other contracts so as to allow the economic interest generated by NetDragon (Fujian) and NetDragon (Shanghai) to be flowed to TQ Digital.

The Company's auditor has carried out review procedures on the transactions carried out pursuant to the Structure Contracts and the other contracts and has provided a letter dated 10 March 2008 to the Board of Directors, with a copy to the Stock Exchange, confirming that:

(i) The fees paid by NetDragon (Fujian) to TQ Digital are in accordance with the criteria and principles set out in the Structure Contracts for the purpose of ensuring the economic interest generated by NetDragon (Fujian) and NetDragon (Shanghai) is flowed to TQ Digital, which have been properly approved by the management committee;

(ii) The net asset value of NetDragon (Fujian) at year end did not exceed its net assest value as at 31 December 2006, being approximately RMB15,000,000; and

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

Equity Holders' Voting Rights Proxy Agreement (Cont'd)

(iii) No dividends or other distributions have been made by NetDragon (Fujian) or NetDragon (Shanghai) (save as to NetDragon (Fujian)) to the holders of their equity interest.

NetDragon (Fujian) and NetDragon (Shanghai) have provided to the Company as undertaking that they will allow the Company and its auditors to have full access to relevant records of NetDragon (Fujian) and NetDragon (Shanghai) for the purpose of the Company's auditors review of the transactions referred to above.

CONTINUING CONNECTED TRANSACTIONS

On 15 October 2007, TQ Digital and NetDragon (Fujian) have entered into an agreement (the "New Service Agreement") for provision of repair and maintenance of computer system service and after-sales service with Fuzhou Tianliang Network Technology Company Limited ("Fuzhou Tianliang") pursuant to which, at the direction of TQ Digital, Fuzhou Tianliang agreed to provide to NetDragon (Fujian) computer system repair and maintenance service and after-sales service for online game customers on normal commercial terms which are no less favorable than those available from independent third parties. The term of the New Service Agreement is for two and a half years commenced from 1 July 2007 to 31 December 2009. The computer system repair and maintenance service mainly includes the routine system checking and maintenance and technical diagnosis and repair of system hardware, operating systems, database and application software which are vital to the operations of NetDragon (Fujian) as it ensures the smooth operation and upkeep of the computer systems on which the online games software are being run. On the other hand, the after-sales service mainly includes the provision of customer hotline services and assistance in responding to customers' enquiries and complaints in online forums and correspondences which are essential for customer management to enhance customer loyalty.

Fuzhou Tianliang is a limited company established in the PRC, which is owned as to 30%, 30% and 40% by Chen Hongzhan, an executive Director, Zheng Hui, an executive Director and Wu Jialiang, one of our senior management, respectively and Fuzhou Tianliang is therefore our connected person under the GEM Listing Rules.

Since the applicable percentage ratios under the GEM Listing Rules in relation to amount of service fees payable by the Group to Fuzhou Tianliang under the New Service Agreement on an annual basis have been and are expected to be less than 2.5%, the transactions under the New Service Agreement constitute non-exempt continuing connected transactions under Rule 20.34 of the GEM Listing Rules.

The Stock Exchange has granted a waiver to the Company from strict compliance with the continuing connected transaction requirements pursuant to Rule 20.42(3) of the GEM Listing Rules in respect of the New Services Agreement.

CONNECTED TRANSACTIONS (Cont'd)

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

The independent non-executive Directors of the Company have reviewed and confirmed that the continuing connected transactions are entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the New Service Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with the requirements of board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules since its listing.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws in the Cayman Islands which would oblige the Company no offer new shares on a pro rata basis to existing shareholders of the Company.

COMPETITION AND CONFLICT OF INTEREST

Save as disclosed in the prospectus of the Company dated 23 October 2007, none of the Director or the management shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at 31 December 2007 and as at the date of this report.

COMPLIANCE ADVISER'S INTEREST

Pursuant to the compliance adviser agreement dated 29 October 2007 entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser of the Company for the period commencing from 2 November 2007 and ending on the date on which the Company complies with Rules 18.03 of the GEM Listing Rules distribute the Company's financial results for the second full financial year commencing after the date of listing on the GEM.

As notified by First Shanghai, none of First Shanghai, its Directors, employees or associates had any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2007 and as at the date of this report.

POST BALANCE SHEET EVENTS

Subsequent to the year end date and up to 19 February 2008, the Company repurchased 15,858,500 of its own shares through purchase on the Stock Exchange. The aggregate consideration paid to acquire the shares was approximately RMB193,385,000.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, the Company repurchased its shares through the Stock Exchange as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid
		Highest	Lowest	
		HK$	*HK$*	*HK$*
December 2007	116,500	14.48	14.16	1,670,410.00

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

The repurchase of the Company shares during the year were effected by the Directors pursuant to the resolutions of the Board meeting on 10 December 2007, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

The following is a summary of comparison of the Company's actual business progress with its business objectives as set out in the Prospectus for the period from 18 October 2007, being the latest practicable date as stated in the Prospectus, to 31 December 2007.

	Business objectives as stated in the Prospectus	**Actual business progress**
Further strengthen our core game development capabilities	• We will recruit additional experienced game developers to cope with our game development.	• We have recruit more than 100 game developers to join our game development team.
	• We will enhance our incentive programme for our development team.	• We have enhanced our incentive programme for our game development team including the introducing of the GEM Share Option Scheme.
	• We will enhance our internal training programmes by inviting professionals to organise trainings and seminars.	• We invited professionals from different industries and professors to conduct training sessions and seminars for our employees.
	• We intend to purchase computers and game development software.	• We have purchased new computers and softwares required for our game development.
	• We will continue to standardise our game development process to improve efficiency.	• We have developed some game development software to replace some manual operation which improved the efficiency on our game development process.

	Business objectives as stated in the Prospectus	Actual business progress
Further enhance our integrated operation model	• We will form a committee to oversee the study of integrating the customer information system, accounting system, distribution and payment system and ERP system.	• We have formed a committee led by our Chairman and chief game designer to oversee the study of integrating the customer information system, accounting system, distribution and payment system and ERP system.
	• We will recruit additional professionals with sophisticated experience to review and implement our integration project.	• We have set up a new department to develop and integrate our customer information system, accounting system, distribution and payment system and ERP system.
	• We intend to form a team to study how to further utilise customer information captured by our customer information system.	• We have recruited over 10 professionals with experience on ERP system, CRM system or software development to join the new department.
		• We have formed a team to study how to further utilize customer information captured by our customer information system.
Enrich our product portfolio and extend our game life cycles	• We will launch the Chinese version of Way of the Five (previously named as Happiness Q).	• We have conducted the closed and open beta testing of Way of the Five in the fourth quarter of 2007 and we expect to launch the Chinese version of Way of the Five in the second quarter of 2008.
	• We will rollout upgraded versions of Eudemons Online and Zero Online.	• We rollout upgraded versions of Endemons Online and Zero Online.
	• We will customise Zero Online into the English version.	• We have launched English version of Zero Online with customised features targeting overseas market.
	• We will recruit additional experienced staff to operate our games	• We have recruited more than 100 additional employees to join our game development team.

	Business objectives as stated in the Prospectus	Actual business progress
Expand our business through acquisition or cooperation with external parties	• We will form a business development team to evaluate acquisition and merger opportunities.	• We have formed a business development team to evaluate acquisition and merger opportunities.
	• We intend to enter into negotiation with potential game development studios and game operators to evaluate cooperation or merger and acquisition possibilities.	• We were negotiating with potential game development studios and game operators to evaluate cooperation and merger and acquisition possibilities.
		• We cooperated with China Film Group to develop and release Tou Ming Zhuang Online, based on the movie of "The Warlords".
Strengthen our corporate image and promote our games	• We will continue to engage marketing consultants to formulate marketing strategies to promote our corporate image and our games.	• We continued to engage Ogilvy to formulate marketing strategies to promote our games.
	• We will continue to engage well-known Internet portals for corporate image advertisement and game promotion.	• We have engaged well-known Internet portals such as those operated by SINA, Baidu and Tencent for corporate image advertisement and game promotion.
	• We will engage a number of advertising agents to place advertisements in various media, including newspapers and magazines.	• We have engaged a number of advertising agents to place advertisements in various media.

Comparison between proposed applications and actual applications of net proceeds raised from the placing of the Company's shares on GEM

Business Objectives	Proposed applications upto 31 December 2007, as set out in the Listing documents *HK$ million*	Actual amount of proceeds used upto 31 December 2007 *HK$ million*
Further strengthen our core game development capabilities	2.0	8.8
Further enhance our integrated operation model	1.3	0.0
Enrich our product portfolio and extend our game life cycles	8.3	3.4
Strengthen our corporate image and promote our games	25.6	15.0
Total	37.2	27.2

PUBLIC FLOAT

For the year ended 31 December 2007, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules.

SHARE OPTION SCHEME

Pursuant to the resolution of all the shareholders of the Company dated 15 October 2007, the Company adopted a share option scheme (the "Share Option Scheme"). During the year under review, no options had been granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the above Share Option Scheme disclosed above and set out in note 24 to the financial statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

AUDITORS

A resolution will be submitted in the annual general meeting of the Company to re-appoint Grant Thornton as auditors of the Company.

On behalf of the Board
Liu Dejian
Chairman

Hong Kong, 20 March 2008

The Directors believe that good corporate governance practices serve as an effective risk management for the Company and hence, the shareholders of the Company will benefit from the high standard of corporate governance.

Throughout the period from 2 November 2007, the date of listing of the Company's share on GEM, to 31 December 2007, the Company has complied with the principles set out in the Code on Corporate Governance Practices (the "CG Code Provision") in Appendix 15 of the Rules Governing the Listing of Securities (the "GEM Listing Rules") on the GEM of the Stock Exchange.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors since the commencement of trading of the shares of the Company on GEM on 2 November 2007.

THE BOARD

The Board is composed of four executive Directors (including the Chairman and the Chief Executive Officer of the Company) and five non-executive Directors (of whom three are independent non-executive Directors), whose biographical details are set out in "Directors and Senior Management" section on pages 24 to 27. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relationship to one another.

During the year, the Board held 3 meetings after the shares of the Company were listed on GEM on 2 November 2007. Attendance of each Director at the Board meetings held in 2007 is set out below:

Directors	Full Board	Board for repurchase of shares	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Liu Dejian *(Chairman)*	3/3	1/1	N/A	N/A	N/A
Liu Luyuan *(Chief Executive Officer)*	3/3	1/1	N/A	N/A	N/A
Zheng Hui	3/3	1/1	N/A	N/A	N/A
Chen Hongzhan	3/3	1/1	N/A	N/A	N/A
Non-executive Directors					
Lin Dongliang	3/3	1/1	N/A	N/A	N/A
Zhu Xinkun	1/3	1/1	N/A	N/A	N/A
Independent non-executive Directors					
Chao Guowei, Charles	3/3	1/1	2/2	1/1	1/1
Lee Kwan Hung	3/3	1/1	2/2	1/1	1/1
Liu Sai Keung, Thomas	3/3	1/1	2/2	1/1	1/1

Board and committee minutes are recorded in appropriate detail and are kept by the Company Secretary. Draft minutes are circulated to Directors for comment within reasonable time after each meeting and the final version is open for Directors' inspection.

THE BOARD (Cont'd)

The Directors are entitled, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

In full compliance with Rule 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional accounting qualifications.

In addition, the Company has received from each of the independent non-executive Director an annual confirmation of their independence pursuant to Rule 5.09 of the GEM Listing Rules. These Directors' independence have been verified.

DIRECTORS'S INTEREST IN CONTRACT

With reference to the Structure Contracts entered into between TQ Digital and NetDragon (Fujian), the executive Directors Liu Dejian, Liu Luyuan and Zheung Hui, are interested in an aggregate of 98.9% in NetDragon (Fujian). NetDragon (Shanghai), being a subsidiary of NetDragon (Fujian), are technically associates of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company, NetDragon (BVI), TQ Digital, NetDragon Websoft (Hong Kong) Limited ("NetDragon (Hong Kong)") or NetDragon Websoft Inc. ("NetDragon (USA)") (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other hand, including in the Structure Contracts, would technically be connected transactions. Details for the Structure Contracts are set out in pages 35 to 38 in the section of "Report of the Directors" under the paragraphs of "Structure Contracts".

With reference to the continuing connected transactions, the executive Directors, Zheng Hui and Chen Hongzhan being each owned 30% and 30% respectively in Fuzhou Tianliang. Details for the continuing connected transactions are set out in pages 38 to 39 in the section of "Report of the Directors" under the paragraphs of "Continuing Connected Transactions".

Save as the above, none of the Directors is materially interested in any contract of significance during the year ended 31 December 2007.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer are held by Mr. Liu Dejian and Mr. Liu Luyuan respectively.

In order to reinforce their respective independence, accountability and responsibility, the role of the Chairman is separated from that of the Chief Executive Officer. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice and ensuring the effectiveness of the Board. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on managing the Company and its subsidiaries, developing and implementing objectives, policies and strategies approved and delegated by the Board. The Chief Executive Officer is in charge of the Group's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

AUDIT COMMITTEE

The Company established the audit committee on 15 October 2007 which has adopted written terms of reference in compliance with the Code of Corporate Governance Practice set out in Appendix 15 to the GEM Listing Rules and has held two meetings during 2007. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

The audit committee will review the quarterly, interim and annual financial results of the Company. In addition, the audit committee will also review and approve the pricing policy for the continued connected transactions with Fuzhou Tianliang by quarterly basis with appropriate expertise in Internet services industry.

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

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

The Company's audited financial statement as set out in this report 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.

REMUNERATION COMMITTEE

The Company established the remuneration committee on 15 October 2007 which considers and recommends to our Board of Directors the remuneration and other benefits paid by us to our Directors and senior management, and has held one meeting during 2007. The remuneration of all our Directors and senior management is subject to regular monitoring by the remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

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

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

EMPLOYEE AND EMOLUMENT POLICY

The emolument policy of the employees of the Company is set up by the Board of Directors on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are recommended by the remuneration committee and are decided by the Board of Directors, as authorised by shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

NOMINATION COMMITTEE

The Company established a nomination committee on 15 October 2007 which considers and recommends to our Board of Directors suitably qualified persons to become our Directors and is responsible for reviewing the structure, size and composition of our Board of Directors on a regular basis.

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

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

MANAGEMENT COMMITTEE

The Structure Contracts establish the Management Committee to oversee the business and operations of NetDragon (Fujian). Through its control over NetDragon (Fujian), the Management Committee is also able to oversee the business and operations of NetDragon (Shanghai), being the subsidiary of NetDragon (Fujian). The Management Committee comprises four members, of which each of TQ Digital and NetDragon (Fujian) is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the Management Committee may only be removed by the party who originally appointed such member. As a general requirement, the members appointed by NetDragon (Fujian) must also be the equity holders of NetDragon (Fujian) as well as directors of TQ Digital. In the case where the number of members who concurrently act as a director of both TQ Digital and NetDragon (Fujian) is less than two, TQ Digital is entitled to appoint an additional member of the Management Committee. As such, under the Structure Contracts, the Management Committee is allowed to have a maximum of five members.

Currently, the Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by NetDragon (Fujian), and Zheng Hui and Chen Hongzhan who were appointed by TQ Digital. The directors of NetDragon (Fujian) comprise Liu Dejian, Liu Luyuan, Zheng Hui, being executive Directors, Wu Jialiang, being a member of our senior management, and Lin Lizhi, being our general manager. Zheng Hui, an executive Director, is the only director of NetDragon (Shanghai). Further details of the above members are set out in the section headed "Directors and Senior Management" in this annual report.

INTERNAL CONTROLS

The Board has overall responsibility for maintaining an effective internal control system of the Group. The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

The Board has conducted an annual review of the effectiveness of its internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management functions.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's external auditors, is set out as follows:

	RMB'000
Audit services	603
Non-audit services	1,550
	2,153

The above non-audit services include professional advisory fees relating to the GEM Listing.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts of each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The market capitalization of the Company as at 31 December 2007 was approximately HK$9,175.5 million (entired issued share capital: 556,091,360 shares) at closing market price: (HK$16.5 per share). The public float is around 28%.

The 2008 AGM will be held at Island Shangri-La Hotel Hong Kong in Hong Kong on 28 April 2008 at 3:00 p.m..

Grant Thornton
均富

Grant Thornton
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

T +852 2218 3000
F +852 3748 2000

www.gthk.com.hk

To the members of NetDragon Websoft Inc.

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of NetDragon Websoft Inc. (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 52 to 111, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement and the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Certified Public Accountants
Member of Grant Thornton International Ltd

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
20 March 2008

CONSOLIDATED INCOME STATEMENT

	Notes	2007 RMB'000	2006 RMB'000
Revenue	7	645,214	122,061
Cost of revenue		(36,863)	(11,179)
Gross profit		608,351	110,882
Other revenue and gains	7	8,321	5,673
Selling and marketing expenses		(80,844)	(13,838)
Administrative expenses		(50,090)	(22,960)
Development costs	8	(37,253)	(12,835)
Other operating expenses		(21,404)	(15,377)
Operating profit	8	427,081	51,545
Loss on disposal of an associate		—	(2)
Profit before income tax		427,081	51,543
Income tax expense	11	(52,244)	(8,558)
Profit for the year		374,837	42,985
Attributable to			
Equity holders of the Company	12	374,854	42,856
Minority interests		(17)	129
		374,837	42,985
Dividends	13	295,162	—
		RMB cents	RMB cents
Earnings per share	14		
– Basic		85.01	12.21
– Diluted		N/A	N/A

	Notes	2007 RMB'000	2006 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	61,344	23,211
Land use rights	16	1,174	—
Available-for-sale financial asset	18	4,000	4,000
Deferred tax assets	27	54	201
		66,572	27,412
Current assets			
Investment in trading securities	18	—	851
Trade and other receivables	19	67,295	40,354
Amounts due from related parties	26(iii)	8,832	11,357
Tax recoverable		581	—
Term deposits with initial term of over three months	20	50,000	—
Cash and cash equivalents	21	1,651,380	66,322
		1,778,088	118,884
Current liabilities			
Trade and other payables	22	45,262	37,910
Amounts due to related parties	26(iii)	76	725
Income tax payable		29,940	2,954
		75,278	41,589
Net current assets		1,702,810	77,295
Total assets less current liabilities/Net assets		1,769,382	104,707
EQUITY			
Share capital	23	41,219	1,453
Reserves	25	1,728,051	103,125
Equity attributable to equity holders of the Company		1,769,270	104,578
Minority interests		112	129
Total equity		1,769,382	104,707

BALANCE SHEET

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	17	167,871	—
Current assets			
Trade and other receivables	19	5,428	—
Amounts due from related parties	26(iii)	—	1,453
Amount due from a subsidiary	17	225,052	—
Cash and cash equivalents	21	1,317,532	—
		1,548,012	1,453
Current liabilities			
Trade and other payables	22	7,402	—
Amounts due to subsidiaries	17	2,967	—
		10,369	—
Net current assets		1,537,643	1,453
Total assets less current liabilities/Net assets		1,705,514	1,453
EQUITY			
Share capital	23	41,219	1,453
Reserves	25(a)	1,664,295	—
Total equity		1,705,514	1,453

	Attributable to equity holders of the Company											
	Share capital RMB'000	Share premium RMB'000 (note 25(b)(i))	Capital contribution RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000 (note 25(b)(ii))	Statutory reserves RMB'000 (note 25(b)(iii))	Translation reserve RMB'000	Dividend reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	1,453	16,267	—	—	11,596	2,676	(8)	—	7,985	39,969	—	39,969
Exchange difference arising on translation of overseas operations	—	—	—	—	—	—	(2)	—	—	(2)	—	(2)
Expense recognised directly in equity	—	—	—	—	—	—	(2)	—	—	(2)	—	(2)
Profit for the year	—	—	—	—	—	—	—	—	42,856	42,856	129	42,985
Total recognised income and expense for the year	—	—	—	—	—	—	(2)	—	42,856	42,854	129	42,983
Capital received in advance (note 25(b)(i))	—	—	21,755	—	—	—	—	—	—	21,755	—	21,755
Appropriations	—	—	—	—	—	4,092	—	—	(4,092)	—	—	—
At 31 December 2006 and 1 January 2007	1,453	16,267	21,755	—	11,596	6,768	(10)	—	46,749	104,578	129	104,707
Exchange difference arising on translation of overseas operations	—	—	—	—	—	—	(10,797)	—	—	(10,797)	—	(10,797)
Expense recognised directly in equity	—	—	—	—	—	—	(10,797)	—	—	(10,797)	—	(10,797)
Profit for the year	—	—	—	—	—	—	—	—	374,854	374,854	(17)	374,837
Total recognised income and expense for the year	—	—	—	—	—	—	(10,797)	—	374,854	364,057	(17)	364,040
Issue of shares by a subsidiary # (note 25(b)(i))	—	69,984	(21,755)	—	170	—	—	—	—	48,399	—	48,399
Issue of shares by the Company (note 23(iv)&(v))	2,053	—	—	—	(1,820)	—	127	—	—	360	—	360
Dividends declared (note 13)	—	—	—	—	—	—	—	—	(79,069)	(79,069)	—	(79,069)
Issue of new shares upon listing (note 23(ix))	7,046	1,183,554	—	—	—	—	—	—	—	1,190,600	—	1,190,600
Issue of new shares upon capitalisation issue (note 23(viii))	29,481	(29,481)	—	—	—	—	—	—	—	—	—	—
Issue of new shares by the Company upon exercise of over-allotment options (note 23(x))	1,194	200,559	—	—	—	—	—	—	—	201,753	—	201,753
Share issue expenses	—	(59,839)	—	—	—	—	—	—	—	(59,839)	—	(59,839)
Repurchase and cancellation of shares (note 23(xi))	(8)	(1,561)	—	8	—	—	—	—	(8)	(1,569)	—	(1,569)
Final proposed dividend (note 13)	—	—	—	—	—	—	—	216,093	(216,093)	—	—	—
Appropriations	—	—	—	—	—	54,448	—	—	(54,448)	—	—	—
At 31 December 2007	41,219	1,379,483	—	8	9,946	61,216	(10,680)	216,093	71,985	1,769,270	112	1,769,382

Holding company of the Group before completion of the Group reorganisation (see note 1).

CONSOLIDATED CASH FLOW STATEMENT

	2007 RMB'000	2006 RMB'000
Cash flows from operating activities		
Profit before income tax	**427,081**	51,543
Adjustments for:		
Loss on disposal of an associate	**—**	2
Fair value gain on investment in trading securities	**(106)**	(383)
Interest income	**(7,008)**	(614)
Amortisation of land use rights	**5**	—
Depreciation of property, plant and equipment	**9,341**	4,457
Write off of property, plant and equipment	**—**	795
Loss on disposal of property, plant and equipment	**20**	466
Impairment on receivables	**541**	416
Foreign exchange differences	**(8,171)**	287
Operating profit before changes in working capital	**421,703**	56,969
Increase in trade and other receivables	**(27,314)**	(30,817)
Decrease/(Increase) in amounts due from related parties	**1,072**	(5,827)
Increase in trade and other payables	**7,352**	20,807
Decrease in amounts due to related parties	**(649)**	(1,431)
Cash generated from operations	**402,164**	39,701
Income tax paid	**(25,692)**	(104)
Net cash generated from operating activities	**376,472**	39,597
Cash flows from investing activities		
Interest received	**6,840**	614
Proceeds from disposals of an associate	**—**	428
Proceeds from disposals of property, plant and equipment	**10**	526
Proceeds from disposals of investment in trading securities	**957**	4,131
Increase in term deposits with initial term of over three months	**(50,000)**	—
Additions to land use rights	**(1,179)**	—
Additions to property, plant and equipment	**(47,504)**	(15,717)
Net cash used in investing activities	**(90,876)**	(10,018)

	2007 RMB'000	2006 RMB'000
Cash flows from financing activities		
Proceeds from shares issued by the Company (note 23(iv),(ix) & (x))	**1,394,166**	—
Proceeds from share issued by a subsidiary (note 25(b)(i))	**48,399**	21,755
Dividends paid (note 13)	**(79,069)**	—
Share issue expenses	**(59,839)**	—
Payment for repurchase of shares	**(1,569)**	—
Net cash generated from financing activities	**1,302,088**	21,755
Net increase in cash and cash equivalents	**1,587,684**	51,334
Cash and cash equivalents at beginning of year	**66,322**	15,277
Effect of foreign exchange rate change	**(2,626)**	(289)
Cash and cash equivalents at end of year	**1,651,380**	66,322

1. GENERAL INFORMATION

NetDragon Websoft Inc. (the "Company") was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability. The registered office of the Company is situated at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and its principal place of business is situated at 58 Hot Spring Branch Road, Fuzhou, Fujian, the People's Republic of China, except Hong Kong (the "PRC"). The Company's shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 2 November 2007.

The Company and its subsidiaries (collectively, the "Group") are principally engaged in online game development and operation and marketing of online games.

The operations of the Group were initially conducted through Fujian NetDragon Websoft Co., Ltd ("NetDragon (Fujian)"), a limited liability company established in the PRC by certain shareholders of the Company on 25 May 1999. NetDragon (Fujian) is legally owned by the controlling shareholders of the Company who are PRC citizens.

The existing PRC law and regulations restrict foreign investment in businesses providing internet content and information services in the PRC, which included activities and services operated by NetDragon (Fujian). As a wholly-owned foreign enterprise, the Company's wholly owned subsidiary, Fujian TQ Digital Inc ("TQ Digital"), does not have the requisite licenses to provide internet content and information services in the PRC.

Accordingly, the Group operated pursuant to a cooperation arrangement between TQ Digital and NetDragon (Fujian) prior to 1 January 2007. Under such cooperation arrangement, TQ Digital was responsible for game software development and provision of the relevant technical services while NetDragon (Fujian) was responsible for the overall operation of the relevant games. In addition, each of TQ Digital and NetDragon (Fujian) was entitled to use the trademarks, copyrights and other intellectual property rights of the other party. Revenue generated from the operations of the games was collected by TQ Digital on behalf of NetDragon (Fujian). Pursuant to the cooperation arrangement, TQ Digital would then return 30% of the total revenue received to NetDragon (Fujian), representing the revenue attributable to the operations of the games, and retain the remaining 70% of the total revenue, representing the games license fee.

In preparation for the listing on the Stock Exchange and with a view to offer further protection to the interests of the Company and the shareholders as a whole by means of contractual arrangements, TQ Digital and NetDragon (Fujian) and its equity holders entered into certain agreements (the "Structure Contracts"), which superseded the cooperation arrangements between TQ Digtial and NetDragon (Fujian) effective from 1 January 2007. Under the Structure Contracts, the decision-making rights and operating and financing activities of NetDragon (Fujian) and its subsidiary, Shanghai Tiankun Digital Technology Ltd. ("NetDragon (Shanghai)"), are ultimately controlled by TQ Digital. TQ Digital is also entitled to substantially all of the operating profits generated by NetDragon (Fujian) and NetDragon (Shanghai) under these arrangements.

1. GENERAL INFORMATION (Cont'd)

Despite the lack of shareholding in NetDragon (Fujian), the agreements entered into by TQ Digital and the equity holders of NetDragon (Fujian) confer TQ Digital the power and authority to exercise control over NetDragon (Fujian). Pursuant to the agreements:

- all the equity holders of NetDragon (Fujian) have granted irrevocable proxy to TQ Digital or a nominee designated by TQ Digital (which will likely be a director of TQ Digital) to exercise all their voting right in the capacity of shareholders of NetDragon (Fujian);
- the equity holders of NetDragon (Fujian) have agreed not to enter into any transaction that may materially affect the assets, liabilities, equity or operations of NetDragon (Fujian) without the prior written consent of TQ Digital;
- the equity holders of NetDragon (Fujian) have agreed not to transfer, sell, pledge, dispose of or create any encumbrance on their equity interest in NetDragon (Fujian) without the prior written consent of TQ Digital;
- NetDragon (Fujian) will not distribute any dividend; and
- the equity holders of NetDragon (Fujian) have pledged their equity interest in NetDragon (Fujian) to TQ Digital as a security against its payment obligations and other obligations and covenants under the Structure Contracts.

The Structure Contracts taken as a whole allow TQ Digital to govern the financial and operating policies of NetDragon (Fujian) and TQ Digital is able to obtain substantially all economic benefits from the activities conducted by NetDragon (Fujian). Accordingly, the directors of the Company regard NetDragon (Fujian) and NetDragon (Shanghai) as the subsidiaries of the Group as defined under Hong Kong Accounting Standard 27 “Consolidated and Separate Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

As the Company, NetDragon Websoft Inc. (“NetDragon (BVI)”), TQ Ditgital, NetDragon Websoft Inc. (“NetDragon (USA)”), NetDragon (Fujian), NetDragon (Shanghai) and NetDragon Websoft (Hong Kong) Limited (“NetDragon HK”) were ultimately controlled by the same group of parties before and after the formation of the Group and the control is not transitory, the financial statements are thereby prepared using the principles of merger accounting as set out in Accounting Guideline 5 “Merger accounting under common control combination” issued by the HKICPA.

Further details of the Group reorganisation prior to the listing of the Company’s shares on the GEM of the Stock Exchange, including further details of the Structure Contracts, are disclosed in the Company’s prospectus dated 23 October 2007.

The financial statements on page 52 to 111 of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. The financial statements also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 20 March 2008.

2. ADOPTION OF NEW AND AMENDED HKFRSs

The Group has adopted all new and revised HKFRSs which are first effective for the year and relevant to the Group. Those new and revised HKFRSs have been adopted in the preparation of the Group's financial statements including the accountants' report in the Company's prospectus dated 23 October 2007.

The Group has not applied the following new or revised HKFRSs that have been issued but are not yet effective:

HKAS 1 (revised)	Presentation of Financial Statements [3]
HKAS 23 (revised)	Borrowing Costs [3]
HKFRS 8	Operating Segments [3]
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions [1]
HK(IFRIC)-INT 12	Service Concession Arrangements [2]
HK(IFRIC)-INT 13	Customer Loyalty Programmes [4]
HK(IFRIC)-INT 14	HKAS 19 – The Limit on Defined Benefit Assets, Minimum Funding Requirements and their intention [2]

1 Effective for annual periods beginning on or after 1 March 2007

2 Effective for annual periods beginning on or after 1 January 2008

3 Effective for annual periods beginning on or after 1 January 2009

4 Effective for annual periods beginning on or after 1 July 2008

Among these new standards and interpretations, HKAS 1 (revised) is expected to be relevant to the Group's financial statements.

Amendment to HKAS 1 Presentation of Financial Statements:

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position and results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

The Group is in the process of assessing the impact of the other new or revised HKFRSs but are not yet in a position to state whether they would have material impact on the Group's financial statements.

It should be noted that accounting estimates and assumptions have been used in preparing the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas where assumptions and estimates are significant to the financial statements or areas involving higher degree of judgement or complexity are set out in note 4 "Critical Accounting Estimates and Judgements".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention except for certain financial assets which are stated at fair value. The measurement bases are fully described in the accounting policies below.

(b) Merger accounting

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination. The consolidated financial statements include the results of each of the combining entities or businesses from the date of incorporation/ establishment or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. All significant intra-group transactions, balances and unrealised gains on transactions have been eliminated on combination. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

(c) Subsidiaries

A subsidiary is an entity (including special purpose entity) over which the Group has power to govern its financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, except for those acquisitions which qualify as a common control combination, which are accounted for using merger accounting as detailed in note 3(b).

All the material intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, the investment in subsidiary is stated at cost less provision for impairment losses, if any. The result of subsidiary is accounted for by the Company on the basis of dividends received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life, after taking account of its estimated residual value. The principal annual rates used for this purpose is as follows:

Buildings	4.75%
Leasehold improvements	shorter of the lease terms and 20%
Computer and office equipment	19% - 20%
Motor vehicles	19%

Useful lives, residual values and depreciation methods are reviewed and adjusted, if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected to arise from the continued use of the item. Any gain or loss arising on derecognising the item (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(e) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Payment for obtaining land use rights is considered as operating leases payment are initially stated at cost and subsequently charged to income statement over the period of the right using the straight-line method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Foreign currencies

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the Group entity operates (i.e. the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company and most of its subsidiaries.

In preparing the financial statements of individual Group entity, transactions in currencies other than the Group entity's functional currency (i.e. foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

For the purpose of preparing the consolidated financial statements, the assets and liabilities of the subsidiaries in which the functional currency is not RMB are translated into RMB at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchanges rates for the year. Foreign exchange gains and losses arising thereon are dealt with in the translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

(g) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where the carrying amount of an asset/a cash-generating unit exceeds its recoverable amount, the asset/cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/cash-generating unit. An impairment loss is charged to the income statement in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Impairment of non-financial assets (Cont'd)

A previously recognised impairment loss on non-financial assets other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset/cash-generating unit, provided the increased amount of the asset/cash-generating unit does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset/cash-generating unit in prior years. Such reversal is credited to the income statement in the period in which it arises.

(h) Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on trade date. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

(i) Financial assets at fair value through profit or loss

Financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss are classified as financial assets at fair value through profit or loss. Financial assets are treated as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are subsequently measured at fair value with changes in fair value being charged to the income statement. In the consolidated financial statements, securities held for trading that are categorised as financial assets at fair value through profit or loss are presented as "Investment in trading securities" under current assets in the balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) Financial assets (Cont'd)

(ii) Loans and receivables

Loans and receivables including trade and other receivables and amounts due from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are included in current assets. Other loans and receivables are included in current assets unless they are expected not to be realised within 12 months after the balance sheet date and in such case, they are classified as non-current assets in the balance sheet.

Loans and receivables are subsequently carried at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Changes in value of loans and receivables through the amortisation process are recognised in the income statement.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated or not classified in any other categories of financial assets. They are included in non-current assets unless management intends to dispose of the assets within 12 months from the balance sheet date.

After initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised as a separate component of equity until they are disposed of or determined to be impaired, at which time the cumulative loss previously recognised in equity is removed from equity and recognised in the income statement.

For available-for-sale equity investment which fair value cannot be measured reliably because (1) the variability in the range of reasonable fair value estimates is significant for that investment and (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investment is stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial assets or a group of financial assets is impaired. If such evidence exists, the impairment loss is measured and recognised as follows:

(i) Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognised in the income statement of the period in which the impairment occurs. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the loans and receivables is directly reduced by any identified amount of impairment. Impaired debts are derecognised when they are assessed as uncollectible.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement of the period in which the reversal occurs.

(ii) Available-for-sale financial assets measured at fair value

If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the asset's acquisition cost and the current fair value less any impairment loss on that asset previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Impairment of financial assets (Cont'd)

(iii) Available-for-sale financial assets measured at cost

If there is objective evidence that an impairment loss on an unquoted investment that is not carried at fair value has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent period in which the reversal occurs.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and at bank, demand deposits with banks, cash deposited with online payment service provider which can be readily withdrawn and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Financial liabilities

Financial liabilities include trade and other payables as well as amounts due to related parties which are initially stated at fair value and subsequently carried at amortised cost using the effective interest method. Changes in value of financial liabilities through the amortisation process are recognised in the income statement.

(l) Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(m) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current year and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, unused tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the unused tax credits and the unused tax losses can be utilised.

Deferred tax assets and liabilities are not recognised if temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affect neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities in respect of taxable temporary differences associated with an investment in subsidiaries are not recognised where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised:

(i) The Group sells pre-paid game cards to distributors and online game players. With the pre-paid game cards, online game players can credit their online game accounts with game points which can be used for the consumption of certain online games of the Group or for purchasing virtual products or premium features for the consumption of other online games of the Group which are free-to-play. The game users can also credit their online user accounts directly. Such income received is deferred and recorded as deferred income under current liabilities and would be recognised as revenue (i.e. online game revenue) upon the actual usage of the game points. Revenue recognised in respect of operating the online games is net of discounts, business tax and other related taxes and charges.

(ii) Game development fee which arises from developing online games for customers is recognised as revenue by reference to the stage of completion of developing the respective online game. As game development fee is non-recurring revenue and developing online games for outsider is not a principal activity of the Group, such fee income is recognised as other revenue.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Grants from government are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as other revenue and presented as such over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(o) Cost of revenue

Costs of revenue consist primarily of rental and maintenance fees of computer equipment and software, fees in respect of internet services, handling charges for online payment services, manufacturing costs for pre-paid game cards and depreciation, which are recognised in the income statement upon utilisation of the relevant services or when the relevant costs are incurred, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Development costs

Expenditure incurred on projects to develop new products is charged to income statement as incurred unless the Group can demonstrate the technical feasibility of completing the projects so that the asset generated will be available for use or sale, its intention to complete the projects and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. In such case, development expenditure is capitalised and deferred as intangible asset, and is amortised over its estimated useful life.

(q) Pension obligations

In accordance with the rules and regulations in the PRC, the employees of the entities established in the PRC participate in defined contribution retirement benefits plans organised by regional governments. The regional governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plan described above. Contributions to these plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(r) Share capital

Ordinary shares and non-redeemable preferred shares with discretionary dividends are classified as equity. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(s) Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the equity holders in a general meeting. When these dividends have been approved by the equity holders and declared, they are recognised as a liability.

(t) Related parties

A party is considered to be related to the Group if:

(i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control within, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;

(ii) the party is a member of the key management personnel of the Group or its parent;

(iii) the party is a close member of the family of any individual referred to in (i) or (ii);

(iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (ii) or (iii); or

(v) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, which are described in note 3, management has made various estimates and judgements which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated. The key source of estimation uncertainty and accounting judgements that result in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognised in the financial statements are discussed below:

(i) Online game revenue recognition

Online game revenue is recognised based on the actual consumption of the relevant game points. Income received in respect of unutilised game points including those arising from unactivated pre-paid game cards is recognised as deferred income. Online game income received is net of discounts given to certain distribution and payment channels. The amount of deferred income arising from unactivated pre-paid game cards is extracted from the accounting system of the Group. As to the amount of deferred income in respect of other unutilised game points, management's estimation is required in determining the average sales value of these unutilised game points as discounts given are different for different sales channels.

In assessing the amount of average sales value for the unutilised game points, management considers the discount rate applicable to each of the distribution and payment channels and the mix of income received via different distribution and payment channels. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at year end. The average sales value of each game point is then determined by factoring the average discount rate to the face value of the game point. If the actual sales value of the unutilised game points differs from management's estimates, the amount of deferred income as well as online game revenue recognised would be affected.

(ii) Subsidiary

As detailed in note 1, NetDragon (Fujian) and NetDragon (Shanghai) are accounted for as subsidiaries as a consequence of the Structure Contracts. Significant judgements have been exercised by the management in assessing and concluding that NetDragon (Fujian) and NetDragon (Shanghai) are subsidiaries of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

(iii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for the property, plant and equipment of the Group. This estimate is based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in income statement.

(iv) Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of the customers and other debtors and the current market condition. Management will reassess the provision at each balance sheet date. The Group's estimates may be inaccurate and any changes in estimates would affect profit or loss in future years.

(v) Estimates of current and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences would impact the income and deferred tax provisions in the period in which such determination were made.

5. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

5.1 Financial risk management

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the board of directors meet regularly and cooperate closely with key management to identify and evaluate risks and to formulate strategies to manage financial risks.

(a) Market risk

(i) Foreign exchange risk

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

Based on the market conditions as at 31 December 2007, the Group determined that it is reasonably possible for RMB to strengthen/weaken by 5% against USD and HKD in the coming twelve months. If RMB had strengthened/weakened by 5% against USD and HKD with all other variables held constant, the Group's profit after tax and retained earnings would have changed mainly as a result of foreign exchange gains/losses on conversion of RMB denominated dividend into HKD for distribution to overseas investors and settlement of outstanding foreign currency denominated monetary items. Details of the changes are as follows:

	2007 **RMB'000**	2006 RMB'000
Profit for the year increase/(decrease)		
– Strengthened 5%	**10,515**	24
– Weakened 5%	**(11,041)**	(25)

The change in foreign exchange rates do not effect the Company's and the Group's other components of equity.

5. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Cont'd)

5.1 Financial risk management (Cont'd)

(a) Market risk (Cont'd)

(ii) Interest rate risk

The Group has no external borrowing. The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing financial assets, mainly the cash and cash equivalents (note 21). However, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Management will consider hedging significant interest rate exposure should the need arise.

Based on the market conditions as at 31 December 2007, the Group determined that it is reasonably possible for interest rates on cash and cash equivalents to strengthen/weaken by 50 basis points in the coming twelve months. If interest rates on cash and cash equivalents had been 50 basis points higher/lower with all other variables held constant, the profit after tax and retained earnings would have changed mainly as a result of higher/lower interest income on floating rate financial assets. Details of the changes are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the year increase/(decrease)				
– 50 basis points higher	**8,506**	331	**6,588**	—
– 50 basis points lower	**(8,506)**	(331)	**(6,588)**	—

The change in interest rates do not effect the Company's and the Group's other components of equity.

5. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Cont'd)

5.1 Financial risk management (Cont'd)

(b) Credit risk

Credit risk arises from term deposits with initial term of over three months, cash and cash equivalents, trade receivables, other receivables and amounts due from related parties. The Group limits its exposure to credit risk by rigorously selecting the counterparties. The Group's exposure to credit risk is summarised as follows:

	2007 RMB'000	2006 RMB'000
Term deposits with initial term of over three months	50,000	—
Cash and cash equivalents	1,651,380	66,322
Trade receivables	26,940	6,200
Other receivables	6,140	18,837
Amounts due from related parties	8,832	11,357

The carrying amount of term deposits with initial term of over three months, cash and cash equivalents, trade receivables, other receivables and amounts due from related parties represent the Group's maximum exposure to credit risk.

Credit risk on term deposits with initial term of over three months and cash and cash equivalents are mitigated as cash is deposited in banks with high credit rating and reputable online payment service provider. Credit risk on trade receivables, other receivables and amounts due from related parties is minimised as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

None of the Group's financial assets are securitised by collateral or other credit enhancements.

5. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Cont'd)

5.1 Financial risk management (Cont'd)

(c) Liquidity risk

Management of the Group aims at maintaining sufficient level of cash and cash equivalents to finance the Group's operations and expected expansion. The Group's primary cash requirements include payments for operating expenses and additions or upgrades of property, plant and equipment. The Group finances its working capital requirements mainly by the funds generated from operations.

The Group's financial liabilities (including trade and other payables and amounts due to related parties) will be settled within 12 months from the balance sheet date. The Group manages liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

5.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of debt securities is determined using the method of estimated discounted cash flows.

The carrying value of trade and other receivables, amounts due from related parties, trade and other payables, amounts due to related parties, cash equivalents and term deposits with initial term of over three months are assumed to approximate their fair values due to the short-term maturity of these balances.

5.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or return capital to shareholders.

Management regards total equity as capital. The amount of capital as at 31 December 2007 amounted to RMB1,769,382,000 (2006: RMB104,707,000), which the management considers as optimal having consider the projected capital expenditures and the projected strategic investment opportunities.

6. SEGMENT INFORMATION

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

Geographical segment is the secondary reporting format of the Group. In determining the Group's geographical segments, revenue is attributed to the segments based on the location where services are provided and assets and capital expenditure are attributed to the segments based on the location of the assets. Unallocated assets mainly comprise available-for-sale financial assets, deferred tax assets, investment in trading securities, and amounts due from related parties.

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

	2007 RMB'000	2006 RMB'000
PRC	524,652	80,413
USA	117,030	40,889
Unallocated	3,532	759
	645,214	122,061

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

	Segment assets	
	2007 RMB'000	2006 RMB'000
PRC	481,910	75,702
USA	24,386	9,374
Hong Kong	1,324,896	30,311
Unallocated	13,468	30,909
	1,844,660	146,296

6. SEGMENT INFORMATION (Cont'd)

	Capital expenditure	
	2007	2006
	RMB'000	RMB'000
PRC	**47,440**	15,605
USA	**64**	112
	47,504	15,717

7. REVENUE AND GAINS

	2007	2006
	RMB'000	RMB'000
Revenue – turnover		
Online game revenue	**645,214**	122,061
Other revenue and gains		
Game development fee	**—**	2,157
Government grants (note)	**735**	590
Interest income on bank balances stated at amortised cost classified as at fair value through profit or loss	**7,008**	614
Fair value gain on investment in trading securities	**106**	383
Others	**472**	1,929
	8,321	5,673
	653,535	127,734

Note:

Government grants were received from the PRC government for subsidising the Group in conducting projects relating to software or technology development. There are no unfulfilled conditions or contingencies relating to these grants.

8. OPERATING PROFIT

The Group's operating profit is arrived at after charging the following items:

	2007 RMB'000	2006 RMB'000
Auditors' remuneration	603	718
Amortisation of land use rights	5	—
Depreciation of property, plant and equipment	9,341	4,457
Operating lease charges on:		
– land and buildings	2,262	2,182
– computer equipment	17,507	5,361
Development costs (note (i))	37,253	12,835
Staff costs (note (ii))	68,935	26,812
Net foreign exchange losses	3,710	212
Write off of property, plant and equipment	—	795
Loss on disposal of property, plant and equipment	20	466
Impairment on receivables	541	416

Notes:

(i) Development costs mainly comprise depreciation of property, plant and equipment of RMB100,000 (2006: RMB164,000), and staff costs of RMB36,268,000, (2006: RMB12,171,000), which are also included in the total amounts disclosed separately above for each of these types of expenses.

The Group did not capitalise any development costs for the year ended 31 December 2007 (2006: Nil).

(ii) Breakdown of staff costs, including directors' remuneration, is as follows:

	2007 RMB'000	2006 RMB'000
Wages, salaries and bonus	59,946	22,565
Welfare, medical and other benefits	5,457	1,989
Contribution to pension plans	3,532	2,258
	68,935	26,812

9. FINANCIAL RESULTS AND FINANCIAL ASSETS AND LIABILITIES BY CATEGORY OF FINANCIAL INSTRUMENTS

Financial results by category

Net gains/(losses) from financial assets and financial liabilities by category of financial instruments are set out below:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Financial assets at fair value through profit or loss held for trading	106	383	—	—
Loans and receivables	(541)	(416)	—	—
Net amounts reported in the consolidated income statements	(435)	(33)	—	—

Financial assets by category

The carrying amount of the Group's financial assets by category of financial instruments included in the consolidated balance sheets and the headings in which they are included are as follows:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Non-current assets				
Available-for-sale financial asset	4,000	4,000	—	—
Current assets				
Financial assets at fair value through profit or loss held for trading				
– Investment in trading securities	—	851	—	—
Loans and receivables				
– Trade and other receivables	67,295	40,354	5,428	—
– Amounts due from related parties	8,832	11,357	—	1,453
– Amount due from a subsidiary	—	—	225,052	—
– Term deposits with initial terms of over three months	50,000	—	—	—
– Cash and cash equivalents	1,651,380	66,322	1,317,532	—
	1,781,507	122,884	1,548,012	1,453

9. FINANCIAL RESULTS AND FINANCIAL ASSETS AND LIABILITIES BY CATEGORY OF FINANCIAL INSTRUMENTS (Cont'd)

Financial liabilities by category

The carrying amount of the Group's financial liabilities by category of financial instruments included in the consolidated balance sheets and the headings in which they are included are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current liabilities				
Financial liabilities measured at amortised cost				
– Trade and other payables	**39,929**	28,116	**7,402**	—
– Amounts due to related parties	**76**	725	**2,967**	—
	40,005	28,841	**10,369**	—

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(i) Directors' remuneration

The aggregate amount of remuneration paid and payable to the directors of the Company by the Group during the year are as follows:

	2007				
	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contribution to pension plans RMB'000	Total RMB'000
Executive directors					
Mr Liu Dejian	—	817	—	—	817
Mr Liu Luyuan	—	407	—	4	411
Mr Zheng Hui	—	151	—	4	155
Mr Chen Hongzhan	—	328	—	6	334
Non-executive directors					
Mr Lin Dongliang	—	—	—	—	—
Mr Zhu Xinkun	—	—	—	—	—
Independent non-executive directors					
Mr Chao Guowei, Charles	38	—	—	—	38
Mr Lee Kwan Hung	50	—	—	—	50
Mr Liu Sai Keung, Thomas	—	—	—	—	—
	88	1,703	—	14	1,805

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Cont'd)

(i) Directors' remuneration (Cont'd)

	2006				
	Fees	Salaries and allowances	Discretionary bonus	Contribution to pension plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr Liu Dejian	—	874	—	—	874
Mr Liu Luyuan	—	131	—	4	135
Mr Zheng Hui	—	65	—	—	65
Mr Chen Hongzhan	—	209	—	4	213
Non-executive directors					
Mr Lin Dongliang	—	—	—	—	—
Mr Zhu Xinkun	—	—	—	—	—
Independent non-executive directors	—	—	—	—	—
Mr Chao Guowei, Charles	—	—	—	—	—
Mr Lee Kwan Hung	—	—	—	—	—
Mr Liu Sai Keung, Thomas	—	—	—	—	—
	—	1,279	—	8	1,287

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office and none of the directors has waived or agreed to waive any emoluments.

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Cont'd)

(ii) Five highest paid individuals

Of the five highest paid individuals consisted in the Group, two (2006: one) were directors of the Company whose emoluments were included in the disclosure in note 10(i) above. The emoluments of the remaining three (2006: four) were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and allowances	1,859	2,244
Discretionary bonus	—	—
Contribution to pension plans	—	—
	1,859	2,244

The remuneration paid to each of the above non-director individuals during the year fell within the band of nil to RMB1,000,000 (2006: Nil to RMB1,000,000) .

11. INCOME TAX EXPENSE

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

	2007 RMB'000	2006 RMB'000
Current tax		
– PRC (note (i))	51,786	1,446
– USA (note (ii))		
Tax for the year	601	1,267
Over-provision in prior years	(290)	—
	52,097	2,713
Deferred income tax (note 27)	147	5,845
Income tax expense	52,244	8,558

11. INCOME TAX EXPENSE (Cont'd)

Notes:

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

TQ Digital is a foreign-invested enterprise and was approved to be a high-tech enterprise located in high technology development zone on 29 July 2005. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) issued by the Ministry of Finance (財政部) and the State of Administration of Taxation (國家稅務總局) on 29 March 1994, TQ Digital is entitled to a preferential income tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years and TQ Digital continued to be recognised as a hi-tech enterprise on 16 August 2007. On 25 December 2003, TQ Digital was approved to be a software enterprise. Pursuant to the Circular on the Tax Policies for Encouraging the Development of Software and Integrated Circuit Industries (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知) issued by the Ministry of Finance (財政部), the State Administration of Taxation (國家稅務總局) and the General Administration of Customs (海關總署) on 22 September 2000, TQ Digital is entitled to tax benefits of tax exemption for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by 50% tax reduction for three years. 2003 was the first profitable year for TQ Digital. Accordingly, the EIT tax rate applicable to TQ Digital during the year was 7.5% (2006: 7.5%).

NetDragon (Fujian) continued to be recognised as a hi-tech enterprise located in high technology industrial development zone on 9 November 2004. Pursuant to the Circular on Some Preferential Policies for the Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) as mentioned in the previous paragraph, NetDragon (Fujian) was entitled to paying EIT at the reduced tax rate of 15% for 2006. Pursuant to a notice issued by a government authority (福建省科學技術廳) on 16 August 2007, NetDragon (Fujian) continued to be recognised as a hi-tech enterprise and is thereby subject to EIT tax rate of 15% during the year.

NetDragon (Shanghai) is subject to EIT tax rate of 33% (2006: 33%).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by order No. 63 of the president of the PRC, which became effective on 1 January 2008. According to the New Tax Law, the income tax rate applicable to the Group's PRC subsidiaries is unified at 25%. According to the circular of State Administration of Taxation Concerning Pre-Payment Issues Relevant to Enterprise Income Tax (國家稅務總局關於企業所得稅預繳問題的通知) issued by the State Administration of Taxation on 31 January 2008, TQ Digital and NetDragon (Fujian) which were recognised as high-tech enterprises prior to 1 January 2008, shall provisionally subject to the EIT tax prepayment rate of 25%, pending further recognition in accordance with the New Tax Law.

(ii) The USA income tax rates applicable to the Group are 34% (2006: 34%) for federal tax and 8.84% (2006: 8.84%) for state income tax.

11. INCOME TAX EXPENSE (Cont'd)

Notes: (Cont'd)

(iii) The Group is not subject to any taxation under the jurisdictions of the Cayman Islands and the British Virgin Islands ("BVI") during the year (2006: Nil). Provision for Hong Kong profits tax is not made as the Group has not derived any assessable profits in Hong Kong during the year (2006: Nil).

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

	2007	2006
	RMB'000	RMB'000
Profit before income tax	**427,081**	51,543
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**65,721**	8,426
Tax exemptions	**(30,917)**	(2,790)
Tax effect of non-taxable income	**(2,229)**	(81)
Tax effect of non-deductible expenses	**19,991**	2,917
Over-provision in prior years	**(290)**	—
Others	**(32)**	86
Income tax expense	**52,244**	8,558

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB216,482,000 (2006: Nil).

13. DIVIDENDS

	2007 RMB'000	2006 RMB'000
Special dividends paid during the year	79,069	—
Proposed final dividend of RMB0.4 per share (2006: Nil)	216,093	—
	295,162	—

Special dividends were declared and paid by the Company and NetDragon (BVI) prior to the reorganisation of the Group:

(a) On 3 February 2007, NetDragon (BVI) declared a special dividend of RMB44,839,000 to its then equity holders.

(b) On 20 June 2007, NetDragon (BVI) declared a special dividend of RMB34,230,000 to the Company. On the same date, the Company declared the same amount of dividend to its equity holders who are effectively the then equity holders of NetDragon (BVI).

The dividend rates and the number of shares ranking for special dividends are not presented as such information is considered not meaningful for the purpose of this report.

The proposed final dividend was determined based on the number of shares as at the date of these financial statements taking into account the share redemption of 15,858,500 shares after the year end (note 31). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and therefore, has not been recognised as a liability at the balance sheet date.

14. EARNINGS PER SHARE

The calculation of earnings per share attributable to the equity holders of the Company is calculated based on consolidated profit attributable to the equity holders of the Company for the year of RMB374,854,000 (2006: RMB42,856,000) and on the weighted average number of 440,953,947 (2006: 350,912,060) in issue during the year, as adjusted to reflect the shares issued for capitalisation as detailed in note 23(viii).

Subsequent to the year end date, the Company repurchased 15,858,500 of its own shares through purchase on the Stock Exchange as detailed in note 31, which reduced the number of issued ordinary shares significantly.

Diluted earnings per share for the years ended 31 December 2007 and 2006 have not presented as there were no dilutive potential shares.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Computer and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group					
Cost:					
At 1 January 2006	—	905	19,210	754	20,869
Additions	—	680	13,698	1,339	15,717
Disposals	—	—	(4,098)	(619)	(4,717)
At 31 December 2006 and 1 January 2007	—	1,585	28,810	1,474	31,869
Additions	1,505	469	41,751	3,779	47,504
Disposals	—	—	(34)	—	(34)
At 31 December 2007	1,505	2,054	70,527	5,253	79,339
Accumulated depreciation:					
At 31 December 2005 and 1 January 2006	—	408	6,533	190	7,131
Charge for the year	—	262	4,059	136	4,457
Disposals	—	—	(2,624)	(306)	(2,930)
At 31 December 2006 and 1 January 2007	—	670	7,968	20	8,658
Charge for the year	14	440	8,201	686	9,341
Disposal	—	—	(4)	—	(4)
At 31 December 2007	14	1,110	16,165	706	17,995
Net carrying amount:					
At 31 December 2007	1,491	944	54,362	4,547	61,344
At 31 December 2006	—	915	20,842	1,454	23,211

The Group's buildings are situated in the PRC and held under long-term lease.

16. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments in respect of land located in the PRC and their carrying amount are analysed as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Carrying amount at 1 January	**—**	—
Additions	**1,179**	—
Amortisation for the year	**(5)**	—
Carrying amount at 31 December	**1,174**	—

The land use rights were acquired in 2007 with lease period of 55 years and are amortised over their lease period.

17. SUBSIDIARIES

	2007	2006
	RMB'000	RMB'000
Investments in subsidiaries		
Unlisted shares, at cost	**167,871**	—
Amount due from a subsidiary	**225,052**	—

The amounts due are unsecured, interest-free and repayable on demand. The directors consider that the carrying amounts of the balances approximate its fair value.

17. SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries as at 31 December 2007 are as follows:

Name	Place and date of incorporation/ establishment and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Effective interest held by the Company	Principal activities
Interests held directly				
NetDragon Websoft Inc.	Incorporated on 8 January 2003 in the BVI, limited liability company	US$222,203.93	100%	Investment holding
Interests held indirectly				
福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.*)	Established on 25 May 1999 in the PRC, limited liability company	RMB10,000,000	99.36%$^{\Delta}$	Operation of online games
福建天晴數碼有限公司 (Fujian TQ Digital Inc.)	Established on 28 February 2003 in the PRC, wholly-owned foreign enterprise #	RMB45,000,000	100%	Development of online games and licensing and servicing of the developed games
上海天坤數碼科技有限公司 (Shanghai Tiankun Digital Technology Ltd.*)	Established on 20 December 2004 in the PRC, limited liability company	RMB1,000,000	99.36%$^{\Delta}$	Provision of support services to a group company in the PRC

17. SUBSIDIARIES (Cont'd)

Name	Place and date of incorporation/ establishment and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Effective interest held by the Company	Principal activities
NetDragon Websoft Inc.	Incorporated on 10 July 2003 in the USA, domestic stock corporation	US$600,000	100%	Provision of support services to a group company in the USA (note)
NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司)	Incorporated on 28 June 2007 in Hong Kong, limited liability company	HK$1	100%	Dormant

Note: NetDragon (USA) was engaged in operation of online games before June 2007.

* for identification purpose only

\# converted to be a wholly-owned foreign enterprise on 28 November 2003

Δ interest existed by virtue of certain contractual arrangements as described in note 1

18. AVAILABLE-FOR-SALE FINANCIAL ASSET/INVESTMENT IN TRADING SECURITIES

	The Group	
	2007	2006
	RMB'000	RMB'000
Unlisted equity investment – PRC	**4,000**	4,000
Unlisted debt securities – USA	**—**	851
	4,000	4,851
Represented by:		
Available-for-sale financial asset	**4,000**	4,000
Investment in trading securities	**—**	851
	4,000	4,851

The unlisted equity investment represents 9.5% interest in 福建楊振華 851 生物科技股份有限公司 which was established in the PRC. Mr Liu Dejian and Mr Zheng Hui, directors of the Company, are directors of the entity and Ms Lin Yun, a beneficial owner of the Company, has equity interest in the entity. The unlisted debt securities represent bonds and certificate of deposits issued by U.S. corporations.

The available-for-sale financial asset is denominated in RMB while the trading securities are denominated in USD.

The available-for-sale financial asset is stated at cost less impairment because the directors are of the opinion that its fair value cannot be measured reliably.

The fair values of the unlisted trading securities which were classified as held for trading were determined by discounting their expected future cash flows at market rate. The debt securities bear interest at fixed rates ranging from 4.2% to 4.5% as at 31 December 2006 and 31 December 2007, and matured during the year.

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (note (i))	**26,940**	6,200	**—**	—
Other receivables	**6,140**	18,837	**3,280**	—
Deposits and prepayments	**34,215**	15,317	**2,148**	—
	67,295	40,354	**5,428**	—

Notes:

(i) The ageing analysis of trade receivables at the balance sheet date, based on the invoice date, is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Outstanding balances with ages:		
– 30 days or below	**22,881**	5,764
– 31 - 60 days*	**1,983**	33
– 61 - 90 days*	**1,876**	24
– 91 - 180 days*	**—**	162
– 181 - 365 days*	**—**	144
– Over 365 days*	**200**	73
	26,940	6,200

* past due but not impaired

Trade receivables that are not yet past due relate to a wide range of corporation partners, sales distributors and distribution partners for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of independent corporation partners, sales distributors and distribution partners that have a good track record with the Group and the Company. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group and the Company do not hold any collateral over these balances.

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

(ii) Trade and other receivables are interest-free and unsecured. Other receivables are not past due or impaired as at year end date. The directors considered that the carrying amounts of trade and other receivables approximate their fair values because of their short maturities.

19. TRADE AND OTHER RECEIVABLES (Cont'd)

Notes: (Cont'd)

(iii) Included in trade and other receivables are the following amounts denominated in a currency other than RMB:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
HK Dollars	**5,560**	—	**5,428**	—
US Dollars	**7,929**	2,125	**—**	—

20. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

The effective interest rates of the term deposits of the Group with initial term of over three months for the year ended 31 December 2007 was 3.42% per annum (2006: Nil).

As at 31 December 2007, all the Group's term deposits are denominated in RMB with initial term of over three months.

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand and at bank	**1,650,102**	60,810	**1,317,532**	—
Cash deposited with an online payment service provider (note (i))	**1,278**	5,512	**—**	—
	1,651,380	66,322	**1,317,532**	—

21. CASH AND CASH EQUIVALENTS (Cont'd)

Notes:

(i) Cash deposited with the online payment service provider could be readily withdrawn by the Group. In prior year, the accounts maintained with this online payment service provider were held on trust by the directors of NetDragon (USA) on behalf of the Group for the exclusive use of accepting online payment from customers. During the year, the Group has set up a corporate account with the online payment service provider which is owned by and under the name of NetDragon (USA) and all the funds held by the directors of NetDragon (USA) on behalf of NetDragon (USA) have been transferred to the corporate account.

(ii) As at 31 December 2007, cash and cash equivalents of the Group denominated in RMB amounted to RMB286,403,000 (2006: RMB23,553,000). The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(iii) Cash deposited with banks bear interest at effective interest rates ranging from 0.6% to 3.7% per annum during the year (2006: 0.7% to 2.7%). Cash deposited with the online payment service provider bears interest at effective interest rates ranging from 4.6% to 5.7% per annum during the year (2006: 2.5% to 4.7%).

(iv) Included in cash and cash equivalents are the following amounts denominated in a currency other than RMB:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**1,318,539**	—	**1,317,532**	—
USD	**45,958**	42,769	**—**	—
JPY	**480**	—	**—**	—

(v) The directors consider that the carrying amounts of cash equivalents approximate their fair values.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (note (i))	**500**	83	**—**	—
Accrued staff costs	**5,789**	5,515	**—**	—
Value added tax payables and other tax payables	**5,333**	9,794	**—**	—
Other payables and accrued charges	**15,288**	13,925	**7,402**	—
Deferred income	**18,352**	8,593	**—**	—
	45,262	37,910	**7,402**	—

Notes:

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Outstanding balances with ages:		
– Within 90 days	**500**	1
– 91 - 180 days	**—**	—
– 181 - 365 days	**—**	1
– Over 365 days	**—**	81
	500	83

(ii) The directors consider that the carrying amounts of trade and other payables approximate their fair values.

(iii) Included in trade and other payables are the following amounts denominated in a currency other than RMB:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**7,301**	—	**7,301**	—
USD	**809**	17,845	**101**	—

23. SHARE CAPITAL

	Number of common shares of US$0.01 each	Number of preferred shares of US$0.01 each	Share capital Total number of shares of US$0.01 each	Nominal value US$	Nominal value RMB'000
Authorised:					
At the date of incorporation and at 31 December 2006 and at 1 January 2007 (note (i))	50,000,000	3,000,000	53,000,000	530,000	4,388
Increase in authorised share capital (note (iii))	450,000,000	27,000,000	477,000,000	4,770,000	36,740
Increase in authorised share capital (note (vii))	500,000,000	(30,000,000)	470,000,000	4,700,000	34,643
At 31 December 2007	1,000,000,000	—	1,000,000,000	10,000,000	75,771
Issued:					
At the date of incorporation (note (i))	1	—	1	—	—
Issue of new shares (note (ii))	14,878,936	2,666,666	17,545,602	175,456	1,453
At 31 December 2006 and at 1 January 2007	14,878,937	2,666,666	17,545,603	175,456	1,453
Issue of new shares (note (iv))	4,674,790	—	4,674,790	46,748	360
Issue of new shares (note (v))	19,553,727	2,666,666	22,220,393	222,204	1,693
Conversion of preferred shares to common shares (note (vi))	5,333,332	(5,333,332)	—	—	—
Issue of new shares (note (viii))	399,967,074	—	399,967,074	3,999,671	29,481
Issue of new shares (note (ix))	95,600,000	—	95,600,000	956,000	7,046
Issue of new shares (note (x))	16,200,000	—	16,200,000	162,000	1,194
Repurchase and cancellation of shares (note (xi))	(116,500)	—	(116,500)	(1,165)	(8)
At 31 December 2007	556,091,360	—	556,091,360	5,560,914	41,219

23. SHARE CAPITAL (Cont'd)

Notes:

(i) The Company was incorporated on 29 July 2004 with an authorised share capital of US$530,000 divided into 50,000,000 common shares of US$0.01 each and 3,000,000 preferred shares of US$0.01 each. Upon incorporation, one common share was allotted and issued at par to a shareholder.

(ii) On 15 December 2004, 14,878,936 common shares of US$0.01 each and 2,666,666 preferred shares of US$0.01 each were issued and allotted at par value.

(iii) On 1 March 2007, the authorised share capital of the Company was increased from US$530,000 divided into 50,000,000 common shares of US$0.01 each and 3,000,000 preferred shares of US$0.01 each to US$5,300,000 divided into 500,000,000 common shares of US$0.01 each and 30,000,000 preferred shares of US$0.01 each by issuing additional 450,000,000 common shares of US$0.01 each and 27,000,000 preferred shares of US$0.01 each.

(iv) On 26 March 2007, an aggregate of 4,674,790 common shares of US$0.01 each were allotted and issued at par by the Company.

(v) On 18 May 2007, in consideration for the shareholders of NetDragon (BVI) transferring the entire issued share capital in NetDragon (BVI), the immediate holding company of TQ Digital and NetDragon (USA), to the Company, an aggregate of 19,553,727 common shares of US$0.01 each and 2,666,666 preferred shares of US$0.01 of the Company were allotted and issued at par to the shareholders of NetDragon (BVI) (the "Shares Swap"). The total number of new shares issued by the Company is identical to the total number of shares of NetDragon (BVI) and the total number of shares of the Company in issue on that date.

(vi) On 15 October 2007, 5,333,332 preferred shares of US$0.01 each of the Company were converted into 5,333,332 common shares of US$0.01 each.

(vii) On 15 October 2007, the authorised share capital of the Company decreased from US$5,300,000 to US$5,000,000 by the cancellation of 30,000,000 preferred shares and then the authorised share capital of the Company increased from US$5,000,000 to US$10,000,000 by the creation of 500,000,000 shares of US$0.01 each.

(viii) Pursuant to the written resolutions of the Company passed on 15 October 2007, 399,967,074 shares of the Company were allotted and issued, credited as fully paid at par of US$0.01 each to the then shareholder of the Company, by the capitalisation of the sum of US$3,999,671 (equivalent to RMB29,481,000) from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the Stock Exchange.

(ix) On 1 November 2007, 95,600,000 new shares of US$0.01 each of the Company were issued to the public by way of international placing at HK$13.18 (equivalent to approximately RMB12.45) each. The gross proceeds received from the issue of the 95,600,000 new shares amounted to HK$1,260,000,000 (equivalent to RMB1,190,600,000). Part of the proceeds amounting to RMB7,046,000 was recorded as share capital, and the remaining balance proceeds of RMB1,183,554,000 was recorded in the share premium account. The shares of the Company were listed on the Stock Exchange on 2 November 2007.

23. SHARE CAPITAL (Cont'd)

Notes: (Cont'd)

(x) On 9 November 2007, the over-allotment option was exercised. 16,200,000 new shares of US$0.01 each of the Company were issued to the public by way of placement at HK$13.18 (equivalent to approximately RMB12.45) each. The gross proceeds received from the issue of the 16,200,000 new shares amounted to HK$213,516,000 (equivalent to RMB201,753,000). Part of the proceeds amounting to RMB1,194,000 was recorded as share capital, and the remaining balance proceeds of RMB200,559,000 was recorded in the share premium account.

(xi) The Company repurchased 116,500 of its own shares through purchase on the Stock Exchange during the year ended 31 December 2007. The shares have been cancelled upon being recognised. The total amount to acquire the shares was approximately HK$1.7 million (equivalent to RMB1.6 million) which have been deducted from the shareholders' equity.

24. SHARE OPTION SCHEME

On 15 October 2007, the share option scheme of the Company (the "Scheme") was adopted and complied with the requirements of the Rules Governing the Listing of Securities on GEM regarding share option scheme of a company.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include executive directors, non-executive directors, employees, shareholders, suppliers, customers, consultants, advisers, other service providers, and joint venture partners, business or strategic alliance partners. The Scheme became effective on 15 October 2007 and, unless otherwise cancelled or amended will remain in force for 10 years from that date.

The maximum number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date of listing of the Company's shares on the Stock Exchange. The Scheme mandate limit may be refreshed by the shareholders in general meeting from time to time provided always that the Scheme mandate limit so refreshed must not exceed 10% of the total number of shares in issue as at the date of approval of such refreshment by the shareholders in general meeting.

24. SHARE OPTION SCHEME (Cont'd)

Notwithstanding any other provisions of the Scheme, the maximum number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of shares in issue from time to time.

Share options granted to a director, chief executive, management shareholder or substantial shareholder of the Company, or to any of their respective associates (including a discretionary trust whose discretionary objects include a director, chief executive, management shareholder or substantial shareholder) are subject to approval in advance by the independent non-executive directors (excluding an independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates (including a discretionary trust whose discretionary objects include a director, chief executive, management shareholder or substantial shareholder), in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable and notified by the directors, and may commerce on a date after the date upon which is granted but shall not be later than 10 years from the date of grant.

The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options have been granted since the adoption of the Scheme and the Company had no share options outstanding at the balance sheet date.

25. RESERVES

Details of the movements on the Group's reserves are set out in the consolidated statements of changes in equity on page 55.

(a) Company

	Share premium account RMB'000	Contributed surplus RMB'000	Capital redemption reserve RMB'000	Translation reserve RMB'000	Dividend reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1 January 2007	—	—	—	—	—	—	—
Exchange difference arising on translation	—	—	—	(11,597)	—	—	(11,597)
Profit for the year	—	—	—	—	—	216,482	216,482
Total recognised income and expense for the year	—	—	—	(11,597)	—	216,482	204,885
Arising from reorganisation (note)	—	166,178	—	—	—	—	166,178
Issue of new shares upon listing (note 23(ix))	1,183,554	—	—	—	—	—	1,183,554
Issue of new shares upon capitalisation issue (note 23(viii))	(29,481)	—	—	—	—	—	(29,481)
Issue of new shares upon exercise of over-allotment options (note 23(x))	200,559	—	—	—	—	—	200,559
Share issue expenses	(59,839)	—	—	—	—	—	(59,839)
Repurchase and cancellation of shares (note 23(xi))	(1,561)	—	8	—	—	(8)	(1,561)
Proposed final dividend (note 13)	—	—	—	—	216,093	(216,093)	—
At 31 December 2007	1,293,232	166,178	8	(11,597)	216,093	381	1,664,295

Note:

Contributed surplus of the Company represents the difference between the investment costs of NetDragon (BVI) and the nominal value of the shares issued by the Company pursuant to the Share Swap as detailed in note 23(v).

25. RESERVES (Cont'd)

(b) Group

(i) Share premium

In November 2003, an aggregate of 2,666,666 preferred shares of US$0.01 each of NetDragon (BVI) were allotted and issued at a consideration of US$2 million to new investors of NetDragon (BVI), which give rise to a share premium of RMB16,267,000.

On 10 January 2007, an aggregate of 2,200,000 common shares of US$0.01 each of NetDragon (BVI) were allotted and issued at a consideration of US$4.14 per share to the new investors of NetDragon (BVI), giving rise to share premium of US$9,086,000 (equivalent to approximately RMB69,984,000). As at 31 December 2006, capital of approximately RMB21,755,000 was received in advance from certain of the new investors.

The details of the capitalisation of reserves, placement of new shares upon listing and the exercise of over-allotment option are set out in note 23(viii) to (x).

Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), the share premium account can be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the Company to be issued to members as fully paid bonus shares; (c) the redemption and repurchases of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the Company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of share or debentures of the Company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the Company. No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

25. RESERVES (Cont'd)

(b) Group (Cont'd)

(ii) Capital reserve

Capital reserve arose on combining the results and financial positions of the companies now comprising the Group using the principles of merger accounting as explained in note 1.

The Group does not have shareholding in NetDragon (Fujian) and NetDragon (Shanghai). The establishment of the Group's control over NetDragon (Fujian) and NetDragon (Shanghai) so as to obtain substantially all economic benefit from the activities is by virtue of the Structure Contracts. On this basis, their results and financial postiions are consolidated with that of the Group. The combined capital of NetDragon (Fujian) and NetDragon (Shanghai) less the amount of capital of NetDragon (Fujian) shared by the minority shareholders is thereby included in capital reserve of the Group.

As at 1 January 2006 and 31 December 2006, the Share Swap (note 23(v)) had not yet taken place and the share capital of NetDragon (BVI) which was the then holding company of the Group, was included in the capital reserve of the Group. As at 31 December 2007, the Shares Swap had already taken place and accordingly, the capital reserve of the Group as at 31 December 2007 was reduced to RMB9,946,000 which only included the combined capital of NetDragon (Fujian) and NetDragon (Shanghai) less the amount of capital of NetDragon (Fujian) shared by the minority shareholders.

(iii) Statutory reserves

In accordance with the relevant laws and regulations in the PRC and the articles of association of NetDragon (Fujian) and NetDragon (Shanghai), NetDragon (Fujian) and NetDragon (Shanghai) are required to appropriate 10% and 5-10% of their profit after tax after setting off the accumulated losses brought forward from prior years, as determined in accordance with PRC accounting regulations, to the statutory surplus reserve (the "SSR") and the statutory public welfare fund reserve (the "SPWF") respectively. When the balance of SSR reaches 50% of the registered capital of NetDragon (Fujian) and NetDragon (Shanghai), any further appropriation is optional. The SSR may be used to make good previous years' losses, if any, and may be converted to increase paid-up capital of the respective entities, provided the remaining balance after the capitalisation is not less than 25% of the registered capital. The SPWF could be used for capital expenditure on staff welfare facilities.

25. RESERVES (Cont'd)

(b) Group (Cont'd)

(iii) Statutory reserves (Cont'd)

No allocation to the SPWF is required for NetDragon (Fujian) and NetDragon (Shanghai) from 1 January 2006 due to the revised laws and regulations in the PRC. The unutilised SPWF of NetDragon (Fujian) as at 31 December 2005 was transferred to SSR in 2006.

In accordance with the relevant laws and regulations concerning foreign investment enterprise established in the PRC and the articles of association of TQ Digital, TQ Digital is also required to appropriate certain portion of its profits after tax after setting off the accumulated losses brought forward from prior years, as determined in accordance with PRC accounting regulations, to reserve fund and staff's and workers' bonus and welfare fund. The amount of appropriation is determined by the board of directors of TQ Digital except for the appropriation of 10% of the net profit to the reserve fund which is mandatory until the accumulated total of the fund reaches 50% of registered capital of TQ Digital. The usage of reserve fund and staff's and workers' bonus and welfare fund are similar to that of SSR and SPWF respectively.

The above reserves cannot be used for purposes other than those for which they are created and are non-distributable as cash dividends.

26. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the financial statements, the Group and the Company have the following transactions with the following related parties during the year:

(i) Name of and relationship with related parties

Name of related parties	Relationship
Mr Liu Dejian	Executive director and beneficial owner of the Company
Mr Liu Luyuan	Executive director and beneficial owner of the Company
Mr Liu Ming	A close family member of Mr Liu Dejian
Mr Zheng Hui	Executive director and beneficial owner of the Company
Mr Chen Hongzhan	Executive director and beneficial owner of the Company
Ms Lin Yun	Beneficial owner of the Company and key management
Mr Wu Chak Man	Beneficial owner of the Company and key management
Mr Chen Feng*	Beneficial owner of the Company and key management
Mr Wu Jialiang	Beneficial owner of the Company and key management
福建楊振華 851 生物工程技術研究開發有限公司	Mr Liu Dejian has equity interest in this entity
福州天亮網絡技術有限公司	Mr Zheng Hui, Mr Wu Jialiang and Mr Chen Hongzhan have equity interests in this entity
Beso Biological Research Inc.	This entity is wholly owned by a close family member of Mr Liu Dejian and Mr Liu Luyuan
DJM Holding Limited	A shareholder of the Company in which Mr Liu Dejian has equity interest
Richmedia Holdings Limited	A shareholder of the Company in which Mr Liu Luyuan has equity interest
IDG Technology Venture Investments, L.P.	A shareholder of the Company

* resigned in June 2007

26. RELATED PARTY TRANSACTIONS (Cont'd)

(ii) Significant related party transactions during the year

	2007 RMB'000	2006 RMB'000
Rentals paid to:		
– 福建楊振華 851 生物工程技術研究開發有限公司	270	285
– Beso Biological Research Inc.	124	265
After-sales service fee paid to:		
– 福州天亮網絡技術有限公司	2,972	550
Technical service fee paid to:		
– 福州天亮網絡技術有限公司	1,696	168

The directors consider that all related party transactions were carried out in the ordinary course of business and on terms agreed between the parties.

(iii) Amounts due from/to related parties as at 31 December 2007

Group

	At 31 December		At 1 January
	2007 RMB'000	2006 RMB'000	2006 RMB'000
Amounts due from related parties:			
– 福建楊振華 851 生物工程技術研究開發有限公司 (note)	4,197	6,891	—
– 福州天亮網絡技術有限公司 (note)	2,931	—	—
– DJM Holding Limited (note)	—	961	961
– Richmedia Holdings Limited (note)	—	107	107
– IDG Technology Venture Investments, L.P.	—	221	221
– Mr Zheng Hui (note)	1,695	2,361	3,243
– Ms Lin Yun	9	—	—
– Mr Liu Luyuan (note)	—	57	57
– Mr Wu Chak Man	—	—	912
– Mr Chen Hongzhan (note)	—	300	—
– Mr Wu Jialiang	—	430	—
– Mr Chen Feng	—	29	29
	8,832	11,357	5,530

26. RELATED PARTY TRANSACTIONS (Cont'd)

(iii) Amounts due from/to related parties as at 31 December 2007 (Cont'd)

Note:

Maximum amount due from these related parties during the year are as follows:

	2007 RMB'000	2006 RMB'000
福建楊振華851生物工程技術研究開發有限公司	6,891	6,891
福州天亮網絡技術有限公司	2,931	—
DJM Holding Limited	961	961
Richmedia Holdings Limited	107	107
Mr Zheng Hui	2,361	3,243
Mr Liu Luyuan	57	57
Mr Chen Hongzhan	312	300

	2007 RMB'000	2006 RMB'000
Amounts due to related parties:		
– 福州天亮網路技術有限公司	—	574
– Mr Liu Dejian	76	58
– Mr Liu Ming	—	9
– Ms Lin Yun	—	84
	76	725

Company

	At 31 December		At 1 January
	2007 RMB'000	2006 RMB'000	2006 RMB'000
Amounts due from related parties:			
– DJM Holding Limited (note)	—	961	961
– Richmedia Holdings Limited (note)	—	107	107
– IDG Technology Venture Investments, L.P.	—	221	221
– Mr Zheng Hui (note)	—	135	135
– Mr Chen Feng	—	29	29
	—	1,453	1,453

26. RELATED PARTY TRANSACTIONS (Cont'd)

(iii) Amounts due from/to related parties as at 31 December 2007 (Cont'd)

Note: (Cont'd)

Maximum amount due from these related parties during the year are as follows:

	2007 RMB'000	2006 RMB'000
DJM Holding Limited	**961**	961
Richmedia Holdings Limited	**107**	107
Mr Zheng Hui	**135**	135

The balances are unsecured, interest-free and have no fixed term of repayment. The directors consider that the carrying amounts of the balances approximate their fair values.

(iv) Key management remuneration

	2007 RMB'000	2006 RMB'000
Salaries, allowances and other short-term employee benefits	**2,568**	2,758
Contribution to pension plans	**12**	14
	2,580	2,772

27. DEFERRED TAX ASSETS

The following are the deferred tax assets recognised by the Group and the movements thereon during the year are as follows:

	Tax losses	Development costs	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	5,113	933	6,046
Charged to consolidated income statement (note (11))	(4,966)	(879)	(5,845)
At 31 December 2006 and 1 January 2007	147	54	201
Charged to consolidated income statement (note (11))	(147)	—	(147)
At 31 December 2007	—	54	54

The Company had no deferred tax assets/liabilities as at 31 December 2007 (2006: Nil).

28. CAPITAL COMMITMENTS

At the balance sheet dates, the Group had the following capital commitments:

	2007	2006
	RMB'000	RMB'000
Contracted, but not provided for:		
– acquisition of property, plant and equipment	2,547	2,471

The Company had no capital commitments as at 31 December 2007 (2006: Nil).

29. OPERATING LEASE COMMITMENTS

The Group leases its office premises and certain property, plant and equipment under operating lease arrangements. At the balance sheet dates, the Group had committed to make the following future minimum lease payments in respect of non-cancellable operating leases falling due as follows:

	2007	2006
	RMB'000	RMB'000
Land and buildings		
Within one year	**1,448**	1,872
In the second to fifth years	**2,526**	655
	3,974	2,527
Computer equipment		
Within one year	**1,304**	754
Total		
Within one year	**2,752**	2,626
In the second to fifth years	**2,526**	655
	5,278	3,281

The Company had no operating lease commitments as at 31 December 2007 (2006: Nil).

30. CONTINGENT LIABILITIES

The Group and the Company did not have significant contingent liabilities as at 31 December 2007 (2006: Nil).

31. SUBSEQUENT EVENTS

Subsequent to the year end date, the Company repurchased 15,858,500 of its own shares through purchase on the Stock Exchange. The aggregate consideration paid to acquire the shares was approximately RMB193,385,000.

GROUP FINANCIAL SUMMARY

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December		
	2007	2006	2005
	RMB'000	RMB'000	RMB'000
Revenue	**645,214**	122,061	35,119
Profit/(Loss) from operations	**427,081**	51,545	(30,921)
Loss on disposal of an associate	**—**	(2)	—
Profit/(Loss) before taxation	**427,081**	51,543	(30,921)
Taxation	**(52,244)**	(8,558)	1,721
Net profit/(loss) attributable to the shareholders	**374,837**	42,985	(29,200)
Net profit/(loss) attributable to equity holders of the Company	**374,854**	42,856	(29,171)

CONSOLIDATED BALANCE SHEET

	As at 31 December		
	2007	2006	2005
	RMB'000	RMB'000	RMB'000
Non-current assets	**66,572**	27,412	24,214
Current assets	**1,778,088**	118,884	35,359
Current liabilities	**(75,278)**	(41,589)	(19,604)
Non-current liabilities	**—**	—	—
Minority interests	**(112)**	(129)	—
Equity attributable to equity holders of the Company	**1,769,270**	104,578	39,969