2009 Annual Report

NETDRAGON WEBSOFT INC.

網龍網絡有限公司

(incorporated in the Cayman Island with limited liability)

Stock Code : 777

CONTENTS

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 Director

Mr. Lin Dongliang

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, FCCA

QUALIFIED ACCOUNTANT

Ms. Tam Hon Shan, Celia, HKICPA, FCCA

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

SHARE AWARD SCHEME COMMITTEE

Mr. Lee Kwan Hung *(Chairman of the Committee)*
Mr. Liu Sai Keung, Thomas
Ms. Tam Hon Shan, Celia
Mr. Wu Chak Man

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Ms. Tam Hon Shan, Celia

COMPLIANCE ADVISER

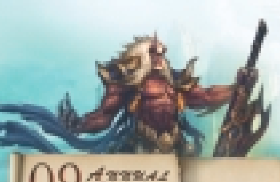
First Shanghai Capital Limited

HONG KONG LEGAL ADVISER

Sidley Austin

PRC LEGAL ADVISER

Jingtian & Gongcheng



AUDITOR

Deloitte Touche Tohmatsu
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

STOCK INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code

777

Listing Date

24 June 2008

Stock Name

NETDRAGON

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2209, 22nd Floor
Shun Tak Centre, West Tower
200 Connaught Road Central
Hong Kong

COMPANY WEBSITE

www.nd.com.cn

Corporate Profile

NetDragon Websoft Inc. ("NetDragon" or the "Company"), together with its subsidiaries (collectively referred to as the "Group") was listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 November 2007 under the stock code of "8288". On 24 June 2008, the Company's listing was successfully transferred to the Main Board (the "Main Board") of the Stock Exchange under a new stock code of "777". Also, the Group's stock became a constituent stock of the Morgan Stanley Capital International ("MSCI") China Index as from late May 2008.

NetDragon was established in 1999 and has been one of the leading online game developers and operators in China. Leveraging on its core technology of research and development of online games, acute market insight and global perspective, NetDragon has become a forerunner in the China online game industry and a pioneer in overseas market expansion. The Company was awarded as the "Excellent Employer – 2009 Excellent Chinese Company for employee" (卓越僱主－2009中國最適宜工作的公司) again by Fortune China after the first time we were awarded in 2007. The Company was also selected in the "List of Potential Enterprises in China" (中國潛力企業) by Forbes China in both 2008 and 2009, and won a series of national prizes.

NetDragon endeavours in self-developed games. To date, it has successfully launched and been operating various flagship online games with diversified themes, including Way of the Five, Eudemons Online, Conquer Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Era of Faith and Monster & Me. Among which, Eudemons Online, which was launched in 2006, has recorded rapid growth and became one of the most popular domestic online games. Way of the Five, a cartoon-version online game, has launched on 7 March 2009 after three years' efforts and recorded excellent results on the first day of launch. Meanwhile, NetDragon continues to research and develop games for different types of players and further expand its product lines.

NetDragon devotes to promote the development of domestic online game industry. NetDragon has first launched self-developed online games domestically. It has also become the vanguard of Chinese online game enterprises to enter the international market with successful operating results. It currently is a Chinese online game operator ranked front in the US market and covered game markets of six languages including English, French and Spanish. Moreover, NetDragon has carried out cooperation with various international famous partners, such as Ubisoft Entertainment SA ("Ubisoft"), Disney Online and Electronic Arts Inc. ("EA"). NetDragon has taken a great step of domestic online game to expand overseas markets. NetDragon has successfully launched the Traditional Chinese version for Eudemons Online and Zero Online in Hong Kong, Taiwan and Macau in the second half of 2008. In 2009, the Group launch the Indonesian version for Eudemons Online in Indonesia with the cooperation business partner, and Zero Online has successfully entered in Vietnam and Thailand markets. In September 2009, Arabic version for Conquer Online was launched and became the first large scale domestic online game which entered the Middle East and North African markets. Official Traditional Chinese version for Way of the Five has also subsequently been launched in Taiwan, Hong Kong and Macau. The geographical coverage of NetDragon's online games has continued to expand.

The preeminent result of NetDragon was recognized by the community as it was awarded「中國民族遊戲海外拓展獎」(the "Award for Overseas Development of Chinese Domestic Games")* and「中國十佳遊戲開發商」("Top 10 Games Developers in China")* by GAPP and Information Industry Department for consecutive four years. In ChinaJoy exhibition in 2009, NetDragon was selected as「十大最具價值企業」("Top 10 Enterprises")* by「中國網絡遊戲產業十年」("A Decade of Chinese Online Game Industry")* with its outstanding contribution to the Chinese Online Game Industry in the past decade. It won numerous major awards, such as「中國十佳運營商」("Top 10 Game Operators of China")* and「中國十佳營銷企業」("Top 10 Marketing Enterprise of China")* in 2007. Products of NetDragon received various awards, namely「金翎獎」("Golden Plume Awards")* in 2009 and 2008 ChinaJoy exhibition,「網絡遊戲風雲榜」("Online Game Award List")* in 2008, five awards in 2008 and seven awards in「中國遊戲風雲榜」("China Game Award List")* for 2007.

* *For identification purpose only*

Group Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009 RMB'000**
Revenue	35,119	122,061	645,214	595,981	**621,836**
Cost of revenue	(4,669)	(11,179)	(36,863)	(68,017)	**(84,325)**
Gross profit	30,450	110,882	608,351	527,964	**537,511**
Other income and gains	4,950	5,673	8,321	58,020	**57,807**
Selling and marketing expenses	(25,450)	(13,838)	(80,844)	(103,599)	**(133,460)**
Administrative expenses	(16,906)	(22,960)	(50,090)	(112,673)	**(163,926)**
Development costs	(15,464)	(12,835)	(37,253)	(89,823)	**(201,461)**
Other expenses	(8,501)	(15,377)	(21,404)	(19,555)	**(1,959)**
Loss on disposal of an associate	—	(2)	—	—	**—**
Net gain (loss) on derivative financial instruments	—	—	—	32,231	**(15,214)**
Net (loss) gain on financial assets designated as fair value through profit or loss	—	—	—	(30,385)	**18,431**
Share of losses of jointly controlled entities	—	—	—	(276)	**(724)**
(Loss) profit before taxation	(30,921)	51,543	427,081	261,904	**97,005**
Taxation credit (charge)	1,721	(8,558)	(52,244)	(22,635)	**(10,381)**
(Loss) profit for the year	(29,200)	42,985	374,837	239,269	**86,624**
(Loss) earnings per share					
– Basic (RMB cents)	(7.29)	12.21	85.01	44.49	**16.57**
– Diluted (RMB cents)	N/A	N/A	N/A	44.49	**16.56**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 31 December				
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009 RMB'000**
Non-current assets	24,214	27,412	66,572	132,608	**183,543**
Current assets	35,359	118,884	1,778,088	1,387,802	**1,368,568**
Current liabilities	(19,604)	(41,589)	(75,278)	(66,599)	**(96,290)**
Minority interest	—	(129)	(112)	—	**484**
Equity attributable to owners of the Company	39,969	104,578	1,769,270	1,453,811	**1,456,305**

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of NetDragon, I am pleased to present the annual report of the Group for the year ended 31 December 2009. With a clear vision to become the leading online game developer and operator of choice in the People's Republic of China (the "PRC"), we are committed to present our customers with a wide range of innovative online games, to provide our people with a great working environment, and to generate high returns for our shareholders.

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 proceeds from listing on the GEM provide the necessary fundings 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.

In January 2009, Forbes China named us one of the country's "List of Potential Enterprises of China for 2009," and Fortune China also named us as "Excellent Employer - 2009 Excellent Chinese Company for Employee" in September 2009. We are also awarded "Platinum Award 2008/2009 for Charity Works" and "Platinum Award of Corporate & Employee Contribution Programme" by the Community Chest of Hong Kong. Further, we won three awards at「大連2009年度中國遊戲產業年會」(the "China Game Industry Annual Conference 2009 in Dalian")*. At this prestigious industry event, we were continuously recognized as one of the「2009年中國十佳遊戲開發商」("Top 10 Games Developers in China for 2009")*. Further, we were also praised for our notable achievement in global marketing development and efforts made towards the「2009年度中國民族遊戲海外拓展獎」("Award for Overseas Development of Chinese Domestic Games for 2009")* and 「2009年度中國遊戲產業特別獎」(the "China Game Industry Annual Conference Special Award for 2009")*. All these achievements have strengthened our position both in the industry and the international capital market.

* *For identification purpose only*

Chairman's Statement

One of the key challenges we faced during the past two years were the re-emergence of "private servers" which adversely impacted our overall business operation. However, our senior management and staff swiftly implemented a series of defensive and counterattack measures to combat the issue. With support from PRC governments, we have achieved encouraging success on this front.

Our revenue amounted to approximately RMB621.8 million while profit attributable to the owners of the Company was approximately RMB87.1 million for the year ended 31 December 2009. Basic and diluted earnings per share amounted to approximately RMB16.57 cents and approximately RMB16.56 cents, respectively. The Group is in a healthy financial position with a net cash position of approximately RMB1,257.0 million providing adequate sources of funding for further investment in our game development capabilities and exploring new business lines.

Operating in one of the most dynamic sectors of the economy, our games are most critical to our success. By leveraging on our leading market position, we are continuously strengthening our game portfolio by focusing on our research and development capability as well as making improvements and upgrades to our existing games in a timely manner. We have been actively recruiting experienced game developers, developing game development software to replace manual operation and purchasing additional computers and software for game development. We believe that our strong game development platform will facilitate us to achieve a higher return.

Aside from allocating more resources towards our game development capabilities, we have also formed partnerships and cultural exchanges with leading enterprises and individuals in the creative industry in an effort to generate inspiration for new ideas.

In 2008, we started to working closely with EA, an internationally renowned game developer, to develop Dungeon Keeper Online, the Group's first 3D MMORPG based on the famous Dungeon Keeper™ line of games. In 2009, we have further strengthened our cooperation relationship with EA by developing another MMORPG based on EA's Ultima Online.

In overseas market development, we have extended our foothold in Thailand, Vietnam, Taiwan and Saudi Arabia by entering into cooperation and/or licensing agreements with online game operators in the respective markets during the year under review.

Apart from developing MMORPG, we have extended our development pipeline to different kinds of online games such as ARPGs, FPS and ACT in 2009. We expected those online games will be launched in the coming 2010.

To further strengthen our presence elsewhere, we will continue to enhance our overseas distribution channels and identify strategic partnership opportunities in overseas markets in the future.

Furthermore, we have continued to explore different opportunities to expand our business lines. In 2009, we have started to develop mobile software applications with which the Group is targeting China's emerging smart-phone users.

Our earlier investments have enabled us to build strong positions in the online game industry in the PRC and overseas. Looking forward, we will continue to lay the foundations for long-term success and create value in a challenging business environment. With a range of new and fun online games in the pipeline, I am confident the Group will continue to make progress and achieve sustainable growth in the future.

DIVIDENDS

As a token of appreciation for the support from the shareholders of the Company, the Board proposed to distribute final dividend of HKD0.05 per share for the financial year ended 31 December 2009 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.

APPRECIATION

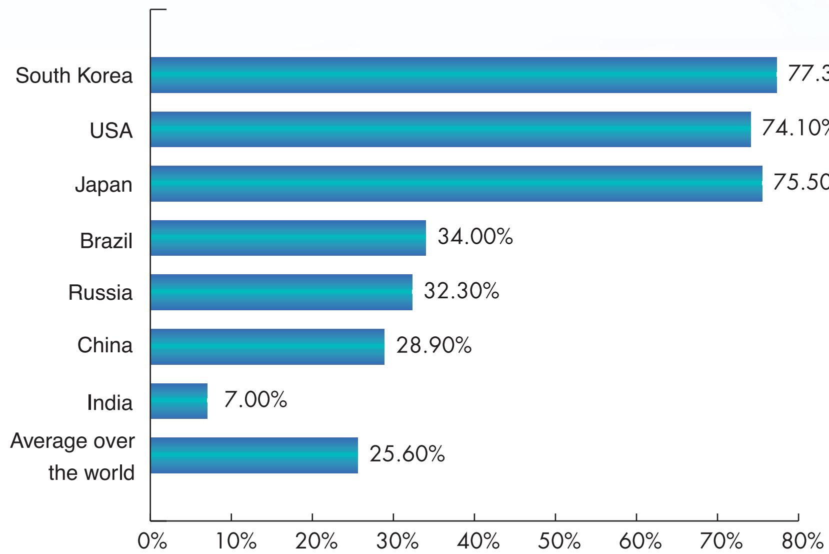
Creativity and innovative thinking are crucial ingredients to the creative process and the online gaming industry. In this regard, our employees are undoubtedly the Group's most valuable asset, and I would like to take this opportunity to express my sincere gratitude to all of them for their efforts, dedication and commitment throughout the year. I would also like to extend my heartfelt thanks to our shareholders and business partners for their continuous support and trust in the Group.

Liu Dejian
Chairman

Hong Kong, 15 April 2010

(1) INDUSTRY REVIEW

China is today one of the most well-positioned and fastest growing Internet economies in the world with a net user population that reached 384 million[1] out of total population of 1,335 million[2] as at the end of 2009. Despite this remarkable size, the Internet penetration rate in China stood at only 28.9%[1] by the end of 2009, compared to 74.1%[1], 77.3%[1] and 75.5%[1] in the United States of America (the "USA"), South Korea and Japan, respectively. This indicates that the Internet's potential in China still has ample room for growth, given a strong user base as well as increasing utilisation rates. Ultimately the online game industry will emerge as one of the major beneficiaries.



Internet Penetration Rate of Selected Countries in December 2009[3]

Due to the vast potential of the online game industry in China, market competition still remained intense in 2009. Dominated by a number of established industry leaders, China's online game sector continued to fragment with a significant number of game developers and operators entering the market. However, the industry consolidation did not likely occur in last year, this trend is expected to continue over the longer term which will favor those industry leaders that are well-managed and financially sufficient to gain market share and enlarge the scale of their business and user base. The market has proved that companies with strong development based will be more competitive and has the ability to maintain its leading position in the industry.

Online security is an industry-wide issue concerning online game operators in China. Last year, illegal or private server activities continuous re-emerged in the online game sector. A host of counter measures have been introduced by online game developers along with the Chinese government's support to combating the illegal or private server activities, which has resulted in great success in the past two years.

Sources:

1. *China Internet Network Information Centre ("CNNIC")*
2. *National Bureau of Statistics of China*
3. *http://www.internetworldstats.com*

(2) OPERATION INFORMATION

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

	For the three months ended				
	31 December 2009	**30 September 2009**	**30 June 2009**	**31 March 2009**	31 December 2008
PCU	**492,000**	**519,000**	**632,000**	**695,000**	591,000
ACU	**253,000**	**273,000**	**310,000**	**333,000**	317,000

Note: As at 31 December 2009, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online and other games.

The PCU for online games was approximately 492,000 for the three months ended 31 December 2009, representing a decrease of approximately 5.2% from the three months ended 30 September 2009 and representing a decrease of approximately 16.8% from the three months ended 31 December 2008.

We also recorded the ACU for online games of approximately 253,000 for the three months ended 31 December 2009, which represented a decrease of approximately 7.3% from the three months ended 30 September 2009 and represented a decrease of approximately 20.2% from the three months ended 31 December 2008.

(3) FINANCIAL PERFORMANCE HIGHLIGHTS

YEAR ENDED 31 DECEMBER 2009

The following table sets forth the comparative figures for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	2008
	RMB'000	RMB'000
Revenue	**621,836**	595,981
Cost of revenue	**(84,325)**	(68,017)
Gross profit	**537,511**	527,964
Other income and gains	**57,807**	58,020
Selling and marketing expenses	**(133,460)**	(103,599)
Administrative expenses	**(163,926)**	(112,673)
Development costs	**(201,461)**	(89,823)
Other expenses	**(1,959)**	(19,555)
Net (loss) gain on derivative financial instruments	**(15,214)**	32,231
Net gain (loss) on financial assets designated as fair value through profit or loss	**18,431**	(30,385)
Share of losses of jointly controlled entities	**(724)**	(276)
Profit before taxation	**97,005**	261,904
Taxation	**(10,381)**	(22,635)
Profit for the year	**86,624**	239,269
Profit for the year attributable to:		
– Owners of the Company	**87,108**	239,381
– Minority interests	**(484)**	(112)
	86,624	239,269

Revenue

Revenue increased by approximately 4.3% to approximately RMB621.8 million for the year ended 31 December 2009 from approximately RMB596.0 million for year ended 31 December 2008.

The following table sets out the breakdown of geographical revenue of the Group for the years ended 31 December 2009 and 2008:

	For the year ended 31 December 2009		For the year ended 31 December 2008	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue
PRC	**483,919**	**77.8**	446,350	74.9
Overseas	**137,917**	**22.2**	149,631	25.1
	621,836	**100.0**	595,981	100.0

Our Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the year ended 31 December 2009 was approximately RMB483.9 million, representing an increase of approximately 8.4% over the year ended 31 December 2008.

The revenue derived from overseas markets for the year ended 31 December 2009 was approximately RMB137.9 million, representing a decrease of approximately 7.8% over the year ended 31 December 2008.

Fourth Quarter of 2009

Revenue

Revenue for the fourth quarter of 2009 was approximately RMB134.2 million, representing a decrease of approximately 1.7% over the same period in 2008 and a decrease of approximately 11.1% from the third quarter of 2009.

Cost of revenue

Cost of revenue for the fourth quarter of 2009 was approximately RMB18.7 million, representing an increase of approximately 2.4% over the same period in 2008 but a decrease of approximately 18.1% from the third quarter of 2009.

Other income and gains

Other income and gains of approximately RMB17.9 million were recorded for the fourth quarter of 2009, compared to other income and gains that of approximately RMB29.3 million and RMB28.5 million for the same period in 2008 and the third quarter of 2009, respectively.

Selling and marketing expenses

Selling and marketing expenses for the fourth quarter of 2009 were approximately RMB34.7 million, representing an increase of approximately 5.5% over the same period in 2008 and an increase of approximately 10.0% from the third quarter of 2009.

Administrative expenses

Administrative expenses for the fourth quarter of 2009 were approximately RMB37.5 million, representing an increase of approximately 66.2% over the same period in 2008 but a decrease of approximately 20.4% from the third quarter of 2009.

Development costs

Development costs for the fourth quarter of 2009 were approximately RMB58.2 million, representing an increase of approximately 84.9% over the same period in 2008 and an increase of approximately 4.9% from the third quarter of 2009.

Other expenses

Other expenses for the fourth quarter of 2009 were approximately RMB1.4 million, representing an increase of approximately 137.6% over the same period in 2008 and an increase of approximately 664.2% from the third quarter of 2009.

Profit for the period

Profit for the fourth quarter of 2009 was approximately RMB1.2 million, representing a decrease of approximately 98.3% over the same period in 2008 and a decrease of approximately 93.4% from the third quarter of 2009. As a percentage of revenue, profit for the period accounted for approximately 0.9% for the fourth quarter of 2009, compared to approximately 53.6% for the same period of 2008 and approximately 12.6% for the third quarter of 2009.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the fourth quarter of 2009 was approximately RMB1.4 million, representing a decrease of approximately 98.1% over the same period in 2008 and a decrease of approximately 92.6% from the third quarter of 2009.

(4) FINANCIAL REVIEW

FOURTH QUARTER OF 2009 COMPARED TO THIRD QUARTER OF 2009 AND FOURTH QUARTER OF 2008

The following table sets forth the comparative figures for the fourth quarter of 2009, the third quarter of 2009 and the fourth quarter of 2008.

	Three months ended		
	31 December 2009 (Unaudited) RMB'000	30 September 2009 (Unaudited) RMB'000	31 December 2008 (Unaudited) RMB'000
Revenue	**134,190**	150,877	136,466
Cost of revenue	**(18,731)**	(22,881)	(18,299)
Gross profit	**115,459**	127,996	118,167
Other income and gains	**17,881**	28,539	29,313
Selling and marketing expenses	**(34,714)**	(31,551)	(32,913)
Administrative expenses	**(37,466)**	(47,085)	(22,536)
Development costs	**(58,208)**	(55,484)	(31,480)
Other expenses	**(1,368)**	(179)	3,634
Net gain on derivative financial instruments	**—**	—	11,438
Net loss on financial assets designated as fair value through profit or loss	**—**	—	(8,676)
Share of losses of jointly controlled entities	**—**	—	(276)
Profit before taxation	**1,584**	22,236	66,671
Taxation (charge) credit	**(338)**	(3,250)	6,521
Profit for the period	**1,246**	18,986	73,192
Profit for the period attributable to:			
– Owners of the Company	**1,426**	19,290	73,192
– Minority interests	**(180)**	(304)	—
	1,246	18,986	73,192

Revenue

Our revenue for the three months ended 31 December 2009 was approximately RMB134.2 million, representing a decrease of approximately 11.1% and 1.7% as compared to approximately RMB150.9 million and RMB136.5 million for the three months ended 30 September 2009 and the same period of 2008, respectively.

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

	For the period from 1 October 2009 to 31 December 2009		For the period from 1 July 2009 to 31 September 2009		For the period from 1 October 2008 to 30 December 2008	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue	RMB'000	% of total revenue
PRC	**98,045**	**73.1**	118,797	78.7	97,726	71.6
Overseas	**36,145**	**26.9**	32,080	21.3	38,740	28.4
	134,190	**100.0**	150,877	100.0	136,466	100.0

The revenue derived from the PRC for the three months ended 31 December 2009 was approximately RMB98.0 million, representing a decrease of approximately 17.5% as compared to approximately RMB118.8 million for the three months ended 30 September 2009. The decrease in revenue derived from the PRC was mainly due to the increasing competition in the PRC market. However, it maintained at a steady level as compared to approximately RMB97.7 million for the same period of 2008.

The revenue derived from overseas markets for the three months ended 31 December 2009 amounted to approximately RMB36.1 million, representing an increase of approximately 12.7% as compared to approximately RMB32.1 million for the three months ended 30 September 2009. The reason for the increase was mainly due to (i) the launch of new expansion pack for Arabic version of Conquer Online; (ii) the launch of new expansion packs of English and Traditional Chinese versions of Eudemons Online; and (iii) the launch of new expansion packs of Thai and Vietnam versions of Zero Online.

However, it also represented a decrease of approximately 6.7% as compared to approximately RMB38.7 million for the same period of 2008. The reason for the decrease was the effect of financial crisis widely spread from the end of 2008 which was not yet fully recovered in 2009, despite the Group has increased the cooperation partners or distributors for selling point cards and online payment services providers for virtual cards.

Cost of revenue

Cost of revenue for the three months ended 31 December 2009 was approximately RMB18.7 million, representing a decrease of approximately 18.1% as compared to approximately RMB22.9 million for the three months ended 30 September 2009, which was mainly due to the positive result from the actions taken on cost control during the fourth quarter of 2009. However, it maintained at a steady level as compared with the same period of 2008.

Gross profit

Our gross profit for the three months ended 31 December 2009 was approximately RMB115.5 million, representing a decrease of approximately 9.8% as compared to approximately RMB128.0 million for the three months ended 30 September 2009 and a decrease of approximately 2.3% as compared to approximately RMB118.2 million for the same period of 2008.

However, the gross profit margin for the three months ended 31 December 2009 was approximately 86.0%, representing an increase of approximately 1.2% as compared to approximately 84.8% for the three months ended 30 September 2009 but a decrease of approximately 0.6% as compared to approximately 86.6% for the same period of 2008.

Other income and gains

Other income and gains for the three months ended 31 December 2009 were approximately RMB17.9 million, representing a decrease of approximately 37.3% and 39.0% as compared with the three months ended 30 September 2009 and the same period of 2008, respectively. The decrease in other income and gains was mainly due to (i) the decrease in interest income; (ii) the decrease in the contribution of advertising income; and (iii) the decrease in government grants granted to TQ Digital by the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳).

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2009 were approximately RMB34.7 million, representing an increase of approximately 10.0% and 5.5% as compared with the three months ended 30 September 2009 and the same period of 2008, respectively. The increase in the amount of selling and marketing expenses was mainly due to (i) increase in promotion activities for the delay in the launch of new games; (ii) the continuous marketing support for promoting the collaboration of Heroes of Might and Magic Online provided by the Group pursuant to the agreement with Ubisoft; and (iii) increase in promotion activities for the mobile software applications business.

However, there is an increase in staff costs relating to rising employee compensations and continuously recruiting experienced staff to keep checking, preventing and attacking the private servers activities. The number of staff in our selling and marketing team was 612 as at 31 December 2009, which decreased as compared with the number of staff as at 30 September 2009. The decline in headcount as a result of the slow-down of recruitment as mentioned in the section of "Staff Relationships and Welfare" under the paragraph ("Commencement of NetDragon's Talent Optimization Project"), only started from late third quarter of 2009, and the effect has not yet been reflected during the period under review.

The proportion of selling and marketing expenses to the total revenue for each of the three months ended 31 December 2008, 30 September 2009 and 31 December 2009 was approximately 24.1%, 20.9% and 25.9%, respectively.

Administrative expenses

Administrative expenses increased by approximately 66.2% to approximately RMB37.5 million for the three months ended 31 December 2009 as compared with the same period of 2008, as a result of the continuous expansion of our business. However, when compared with the three months ended 30 September 2009, it recorded a decrease of approximately 20.4% amounting to approximately RMB9.6 million. The decrease was mainly due to the positive result in implementation of cost control on the operating expenses started from the fourth quarter of 2009.

The proportion of administrative expenses to revenue for each of the three months ended 31 December 2008, 30 September 2009 and 31 December 2009 was approximately 16.5%, 31.2% and 27.9%, respectively.

Development costs

Development costs increased by approximately 4.9% to approximately RMB58.2 million for the three months ended 31 December 2009 as compared with the three months ended 30 September 2009. Although, the number of staff in our development team was 1,804 as at 31 December 2009, which have decreased slightly compared with the number of staff as at 30 September 2009 as the result of the slow-down of recruitment started from late third quarter of 2009. It also represented an increase of approximately 23.1% as compared with 31 December 2008. The increase in the amount of development costs was caused by (i) the continued increase in staff costs for addressing and resolving the issues of private servers as mentioned in the above paragraph headed "Selling and marketing expenses"; (ii) continued increase in co-operation with outside service companies for design and development; and (iii) widen the development of types of online games and expansion of new business lines.

Other expenses, net gain on derivative financial instruments and net loss on financial assets designated as fair value through profit or loss

The net amount of other expenses, net gain on derivative financial instruments and net loss on financial assets designated as fair value through profit or loss for the three months ended 31 December 2009 was approximately RMB1.4 million, which have an increase as compared with the three months ended 30 September 2009. It also represented an increase of approximately 121.4% when compared with the same period of 2008 which was mainly attributable to the net effect of (i) net gain on derivative financial instruments recorded due to the maturity during the second quarter of 2009; (ii) net loss on financial assets designated as fair value through profit or loss recorded due to the maturity during the second quarter of 2009; and (iii) the tax refund on business tax related to intercompany transactions due to the approved non-taxable cooperation revenue being paid by Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") to TQ Digital during the year of 2008.

Taxation

Taxation for the three months ended 31 December 2009 dropped by approximately 89.6% as compared with the three months ended 30 September 2009.

However, it raised by approximately 105.2% as compared with the same period of 2008. The increase in taxation was mainly due to the Enterprise Income Tax (the "EIT") refund of approximately RMB9.8 million approved by the Fuzhou Development Zone Tax Authority in September 2008. The EIT refund was related to the overpayment of EIT of NetDragon (Fujian) for the year ended 31 December 2007. The overpayment of EIT was related to an expense allowed by Fuzhou Development Zone Tax Authority for deduction.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 December 2009 was approximately RMB1.4 million, representing a decrease of approximately RMB17.9 million and RMB71.8 million as compared with approximately RMB19.3 million for the three months ended 30 September 2009 and approximately RMB73.2 million for the same period of 2008, respectively.

YEAR ENDED 31 DECEMBER 2009 COMPARED TO YEAR ENDED 31 DECEMBER 2008

The following table sets forth the comparative figures for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	2008
	RMB'000	RMB'000
Revenue	**621,836**	595,981
Cost of revenue	**(84,325)**	(68,017)
Gross profit	**537,511**	527,964
Other income and gains	**57,807**	58,020
Selling and marketing expenses	**(133,460)**	(103,599)
Administrative expenses	**(163,926)**	(112,673)
Development costs	**(201,461)**	(89,823)
Other expenses	**(1,959)**	(19,555)
Net (loss) gain on derivative financial instruments	**(15,214)**	32,231
Net gain (loss) on financial assets designated as fair value through profit or loss	**18,431**	(30,385)
Share of losses of jointly controlled entities	**(724)**	(276)
Profit before taxation	**97,005**	261,904
Taxation	**(10,381)**	(22,635)
Profit for the year	**86,624**	239,269
Profit for the year attributable to:		
– Owners of the Company	**87,108**	239,381
– Minority interests	**(484)**	(112)
	86,624	239,269

Revenue

Our revenue for the year ended 31 December 2009 was approximately RMB621.8 million, representing an increase of approximately 4.3% as compared to approximately RMB596.0 million for the year ended 31 December 2008. The increase in revenue was mainly due to the official launch of Chinese version of Way of the Five.

The following table sets out the breakdown of geographical revenue of the Group for the years ended 31 December 2009 and 2008:

	For the year ended 31 December 2009		For the year ended 31 December 2008	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue
PRC	**483,919**	**77.8**	446,350	74.9
Overseas	**137,917**	**22.2**	149,631	25.1
	621,836	**100.0**	595,981	100.0

The revenue derived from the PRC for the year ended 31 December 2009 was approximately RMB483.9 million, representing an increase of approximately 8.4% as compared to approximately RMB446.4 million for the year ended 31 December 2008. The increase in revenue derived from the PRC was mainly due to the launch of Way of the Five in March 2009.

The revenue derived from overseas markets for the year ended 31 December 2009 amounted to approximately RMB137.9 million, representing a decrease of approximately 7.8% as compared with that of approximately RMB149.6 million for the year ended 31 December 2008. The reason for the decrease was the effect of financial crisis widely spread from the end of 2008 which was not yet fully recovered in 2009, despite the Group has increased the cooperation partners or distributors for selling point cards and online payment services providers for virtual cards.

Cost of revenue

Cost of revenue for the year ended 31 December 2009 increased by approximately 24.0% to approximately RMB84.3 million as compared with the year ended 31 December 2008. The increase in cost of revenue was mainly due to the increase in leasing expenses for servers as a result of the increase in the number of servers leased by us as compared with the year ended 31 December 2008.

Gross profit

Our gross profit for the year ended 31 December 2009 was approximately RMB537.5 million, representing an increase of approximately 1.8% as compared to approximately RMB528.0 million for the year ended 31 December 2008.

However, the gross profit margin for the year ended 31 December 2009 was approximately 86.4%, representing a decrease of approximately 2.2% as compared to approximately 88.6% for the year ended 31 December 2008. The decrease of the gross profit margin was mainly due to the increase of revenue in terms of change in percentage was much lower than the increase of cost of revenue in terms of change in percentage.

Other income and gains

Other income and gains for the year ended 31 December 2009 decreased by approximately 0.4% to approximately RMB57.8 million as compared with the year ended 31 December 2008. The decrease in other income and gains was mainly due to (i) the decrease in interest income; (ii) the decrease in the contribution of advertising income; and (iii) the decrease in government grants granted to NetDragon (Fujian) and TQ Digital by the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳).

Selling and marketing expenses

Selling and marketing expenses for the year ended 31 December 2009 increased by approximately 28.8% to approximately RMB133.5 million as compared with the year ended 31 December 2008. The increase in the amount of selling and marketing expenses was mainly attributable to (i) our continued advertising and promotion expenses for Heroes of Might and Magic Online in accordance with the terms of agreement with Ubisoft, whereby the Group is required to provide marketing support for promoting the collaboration of Heroes of Might and Magic Online; (ii) increase in the marketing and promotional activities of its launch of new games including Way of the Five, Tian Yuan and Disney Fantasy Online; and (iii) increase in promotion activities for the mobile software applications business.

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

The proportion of selling and marketing expenses to the total revenue for each of the year ended 31 December 2008 and 2009 was approximately 17.4% and 21.5%, respectively.

Administrative expenses

Administrative expenses increased by approximately 45.5% to approximately RMB163.9 million for the year ended 31 December 2009 as compared with the year ended 31 December 2008. The increase of administrative expenses for the year ended 31 December 2009 was mainly attributable to (i) the increase in the staff number of administrative team along with the expansion of development team; and (ii) the overall expansion of the Group.

The proportion of administrative expenses to total revenue for each of the year ended 31 December 2008 and 2009 was approximately 18.9% and 26.4%, respectively.

Development costs

Development costs increased by approximately 124.3% to approximately RMB201.5 million for the year ended 31 December 2009 as compared with the year ended 31 December 2008. The number of staff in our development team increased from 1,465 as at 31 December 2008 to 1,804 as at 31 December 2009. The increase in the amount of development costs was caused by (i) the continued increase in staff costs for addressing and resolving the issues of private servers as mentioned in the above paragraph headed "Selling and marketing expenses"; (ii) continued increase in co-operation with outside service companies for design and development; and (iii) widen the development of types of online games and expansion of new business lines.

Other expenses, net (loss) gain on derivative financial instruments and net gain (loss) on financial assets designated as fair value through profit or loss

The net amount of other expenses, net (loss) gain on derivative financial instruments and net gain (loss) on financial assets designated as fair value through profit or loss for the year ended 31 December 2009 decreased by approximately 107.1% to approximately RMB1.3 million as compared with the year ended 31 December 2008. The decrease in the net amount of other expenses, net (loss) gain on derivative financial instruments and net gain (loss) on financial assets designated as fair value through profit or loss was attributable to (i) decrease in professional services fees in 2009 as there was no expense incurred in 2009 for professional services related to the listing of the Company; and (ii) decrease in business tax related to intercompany transactions due to the approved non-taxable cooperation revenue being paid by NetDragon (Fujian) to TQ Digital.

Taxation

Taxation for the year ended 31 December 2009 dropped by approximately 54.1% as compared with the year ended 31 December 2008. The decrease in taxation was mainly due to the tax benefit on the technology transfer income followed by 50% tax reduction for the year 2009, which was available to TQ Digital based on Implementation Regulations of the EIT Law of the PRC ("中華人民共和國企業所得稅法實施條例") .

Profit for the year attributable to the owners of the Company

Profit for the year attributable to the owners of the Company for the year ended 31 December 2009 was approximately RMB87.1 million, representing a decrease of approximately RMB152.3 million as compared with approximately RMB239.4 million for the year ended 31 December 2008.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(5) BUSINESS REVIEW

During the year under review, the Group celebrated its 10th anniversary. Over the past decade, the Group has witnessed the blossoming of China's online game industry since its birth and has positioned itself as a leader to be reckoned with.

As one of the leading innovators in the rapidly evolving interactive media industry, the Group continues to execute a strategy of strengthening its core game development and operating capabilities in order to tap market opportunities that the online game industry has both in the PRC and abroad.

Launch of new games

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

Way of the Five

The Group has launched a self-developed cartoon-version of the turn-based online game Way of the Five in March 2009. This game has also received a number of industry awards, including the「最佳Q版網絡遊戲」("The Best Online Game of Animation Version")* by「2009年度金翎獎」(the "Golden Plume Awards for 2009")*,「2009年度最佳新銳獎」("The Best New Game for 2009")* at「2009年度中國網吧遊戲盛典」(the "2009 Award Presentation Ceremony of Internet Cafe Games in China")*,「2009年度十大風雲網絡遊戲」(the "2009 Top 10 Best Online Game")* by「大眾網絡報－媒體群」(the "media group of Pop Net")* and「年度十大新銳網遊」(the "Top 10 Pioneering Online Games")* in「騰訊2009中國網絡遊戲風雲榜」(the "Tencent Online Game Award List for 2009")*.

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

Disney Fantasy Online

The Group has commenced the open beta testing of an online fantasy world envisioned to be a turn-based MMORPG playing strategy game targeted at a broad demographic.

Tian Yuan

During the year under review, the Group also unveiled the open beta testing of a self-developed 2.5D MMORPG targeting players interested in martial art games. This game has also received one of industry award of「十大最受期待網游」(the "Top 10 Most Anticipated Online Games")* in「騰訊2009中國網絡遊戲風雲榜」(the "Tencent Online Game Award List for 2009")*.

* *For identification purpose only*


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Development and licensing of existing games

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

During the year under review, the Group has also continued to launch expansion packs that offer additional in-game items and premium features to bolster the popularity of its online games. The Chinese, English, Thai and Vietnam versions of expansion packs named Expanding Horizons of Zero Online were launched. Divine Path was one of the major expansion packs launched for the Chinese, English and other language versions of Eudemons Online. Another expansion pack for Eudemons Online, the Demon Rising, was launched the Chinese and English versions in September and December 2009, respectively. The Group also launched another expansion pack named Raiding Clans for Chinese, English and other language versions of Conquer Online.

During the year under review, the Group has launched the Arabic version of Conquer Online in Saudi Arabia. The Arabic version of Conquer Online has added Arabian style costumes and will launch religious festive tasks based on "Ramadan" and "Lesser Bairam".

With an aim to further expand its business into overseas markets, the Group has licensed its own in-house developed online games in various countries where market opportunities are emerging. The flagship online games in different languages were launched to attract a larger user base worldwide. We commenced the operations of Zero Online in Thailand and Vietnam. We also launched the English version of Tou Ming Zhuang Online in April 2009. During the year under review, the Group entered into several licensed agreements for its own in-house developed online games in different languages in Hong Kong, Japan, Macau, Russia, Taiwan, Bazil and Vietnam. We expect to commence the operation of these games in the coming year.

Games in the pipeline

The Group believes that strengthening its core competencies and creative design capability will facilitate the successful development of new online games. The Group also explored opportunities to develop online games based on popular third party intellectual property. In 2008, NetDragon Websoft (Hong Kong) Limited ("NetDragon (Hong Kong)"), a member of the Group, entered into cooperation with Disney Online to develop Disney Fantasy Online which is launched in 2009. It has become one of the most anticipated online games among players who are expecting a totally unique gaming experience.

The Group also made further inroads into the development of MMORPGs. The Group entered into a cooperative agreement with EA for the development of its first 3D MMORPG Dungeon Keeper Online in 2008 and further entered into another cooperative agreement with EA for the development of its MMORPG Ultima Online in 2009.

The partnership with these internationally renowned game developers is the proof of the Group's capabilities in game operations and development as well as a reflection of its market reputation.

Expanding of business lines

The Group has continued to explore different opportunities to expand our business lines. During the year under review, we started to develop mobile software applications with which the Group is targeting China's emerging smart-phone users.

The mobile software applications project contributes an important part of our wireless business. As of 31 December 2009, the Group has 218 members being employed for the mobile software applications project. It demonstrated a strong development strength and operational capabilities in a variety of mobile phone platforms. The self-development application named "91 Panda Reader" becomes a favourite applications for the mobile users. We want to provide more human-friendly mobile terminal application software to users in the next two years.

During the year under review, "91 Panda Reader" was chosen as one of the Top 50 of China Mobile Client Softwares of 2009-2010 in the 5th China Mobile Network Sites Electron Campaign of 2009.

Enhancement of R&D capabilities

As of 31 December 2009, the Group's overall staff headcount was 2,901, of which 1,804 were members of the development team. The structure was designed to expand and diversify game offerings, while extending the market reach of its product portfolio and to further leverage the inherent advantages of vertical integration as a leading developer and operator of online games. The Group's game development team has gathered expertise in programming, design and graphics, which will support our frequent game upgrades and updates to accommodate the latest player preferences and satisfy emerging market trends.

Management Discussion and Analysis

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 of the Company dated 23 October 2007 (the "Prospectus") for the period from 1 January 2009 to 31 December 2009.

	For the period from 1 January 2009 to 30 June 2009	
	Business objectives as stated in the Prospectus	**Actual business progress for the period**
Further strengthen our core game development capabilities	• We will expand our development team, mainly game designers and graphic artists, to cope with our game development.	• We have recruited 1,963 game developers to join our game development team.
	• We intend to work closely with universities and game development academics by sponsoring competitions and offering scholarships for students in the PRC and overseas.	• The Group has actively maintained close cooperation with well-known universities and has participated in and initiated pre-employment training programmes through the commencement of pre-employment trainings. The Group has signed a cooperation agreement with Software School of Xiamen University in April 2009. The Group also maintained connections with game development academics by providing graduates with opportunities for practice and employment.

For the period from 1 January 2009 to 30 June 2009

Business objectives as stated in the Prospectus	Actual business progress for the period
• We will offer more training programmes and seminars to enhance our developers' skills.	• The Group has invited experts and professors to run training programmes and seminars for the Group's employees and management.
• We will continue to upgrade our computers and game development software.	• We have purchased new computers and softwares and replaced old computer hardwares and accessories for our game development.
• We intend to set up different development centres in the PRC to cope with our expanding business.	• We have set up a 3D graphic department in Shanghai in 2008. We continue to expand our development team in Fuzhou but have no further plan for opening other development centres in the PRC.

	For the period from 1 January 2009 to 30 June 2009	
	Business objectives as stated in the Prospectus	**Actual business progress for the period**
Further enhance our integrated operation model	• We will integrate our accounting system and customer information system.	• After performing and evaluating several test runs, we have partially integrated our accounting system and distribution and payment system which is mainly concentrated on recognition of the online game revenue. On the other hand, we have invested more internal resources in enhancing our integrated operation model including business process management system time management system, bug management system, production schedules system and version management system.
	• We will test and fine-tune the integration of accounting system and distribution and payment system, and provide trainings on the integrated system to our staff.	• We have performed test, fine-tuned the integration of operation models and provided trainings on the system to our staff.

	For the period from 1 January 2009 to 30 June 2009	
	Business objectives as stated in the Prospectus	**Actual business progress for the period**
Enrich our product portfolio and extend our game life cycles	• We will launch one new online game to the PRC market.	• The Chinese version of Way of the Five was launched in early March 2009.
	• We will rollout upgraded versions of our existing games.	• We rollout the Chinese and English expansion packs named Expanding Horizons for Zero Online. The expansion packs Divine Path for Chinese and English versions of Eudemons Online were also launched. We also rollout expansion packs named Raiding Clans for Chinese and English versions of Conquer Online.
	• We will customise our existing games into different languages.	• We have customised the Thai and Vietnam versions of Zero Online and the English version of Tou Ming Zhuang Online.
	• We will recruit additional experienced staff to operate our games.	• We have recruited 646 additional experienced employees to join our team.

	For the period from 1 January 2009 to 30 June 2009	
	Business objectives as stated in the Prospectus	**Actual business progress for the period**
Expand our business through acquisition or cooperation with external parties	• We intend to acquire the PRC or overseas medium size game development studios and game operators specialising in MMORPGs.	• We have entered into cooperative agreements with overseas games development studios specialised in developing MMORPGs. We were negotiating with several potential PRC medium size game development studios and game operators specialising in MMORPGs to evaluate merger and acquisition possibilities.
	• We intend to establish cooperation partnership with the PRC or overseas medium to large size well-known Internet portals.	• We have signed a cooperative agreement with EA for the development of its MMORPG Ultima Online.
	• We will evaluate other merger and acquisition opportunities that complement or benefit our business strategies.	• Our business development team has continued to evaluate acquisition and merger activities that complement or benefit our business strategies.
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 Effort Ogilvy (Fujian) Advertising Co., Ltd. to formulate marketing strategies to promote our games.

For the period from 1 January 2009 to 30 June 2009

Business objectives as stated in the Prospectus	Actual business progress for the period
• We will continue the cooperation with well-known Internet portals for game promotion and corporate image advertisement.	• We have engaged well-known Internet portals for corporate image advertisement and game promotion.
• We will continue to participate in game industry events.	• The Group has been aggressively participating in game industry events and activities.
• We will engage a number of advertising agents to place advertisements on various media, including newspapers and magazines.	• We have engaged a number of advertising agents to place advertisement in various media.
• We will engage an international public relationship firm to promote our corporate image in the online game industry.	• We have engaged BlueFocus PR Consulting to promote our corporate image in the online game industry.

	For the period from 1 July 2009 to 31 December 2009	
	Business objectives as stated in the Prospectus	**Actual business progress for the period**
Further strengthen ourcore game development capabilities	• We will expand our development team, mainly game designers and graphic artists, to cope with our game development.	• After near two year's expansion of the Group, we have implemented talent optimization project in the end of 2009 with an aim to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff members. Through the slowed down the recruitment and talent optimization project, we have employed 1,804 experienced employees to join our team.
	• We intend to work closely with universities and game development academics by sponsoring competitions and offering scholarships for students in the PRC and overseas.	• The Group has actively and closely cooperated with renowned universities and jointly organized special associated training (customized training), project outsourcing and double-skilled teacher training. During the period, the Group has also carried out project cooperation with Xiamen University, Fujian Normal University and Fuzhou University and provided internship and job opportunities for graduates. Over 500 students received free training.

For the period from 1 July 2009 to 31 December 2009

Business objectives as stated in the Prospectus	Actual business progress for the period
• We will offer more training programmes and seminars to enhance our developers' skills.	• The Group has offered about 25 management courses and technical courses of three aspects including game programming, arts of game and game planning for staff of different levels and professions. Renowned domestic professionals and professors from different industries and professions lead training programmes to enhance the managerial skills and professional standards of its workforce.
• We will continue to upgrade our computers and game development software.	• We have purchased new computers and software and replaced old computer hardware and accessories for our game development.
• We intend to set up different development centers in the PRC to cope with our expanding business.	• We continue to expand our development team in Fuzhou but have no further plan for opening other development centres in the PRC.

	For the period from 1 July 2009 to 31 December 2009	
	Business objectives as stated in the Prospectus	**Actual business progress for the period**
Further enhance our integrated operation model	• We will integrate our accounting system and ERP system.	• After performing and evaluating several test runs, we have partially integrated our accounting system and distribution and payment system which is mainly concentrated on recognition of the online game revenue.
		• On the other hand, the Group devotes to promote e-management which includes the implementation of eSOP. eSOP is evolved from SOP and is a perfect combination of IT and SOP, it can deliver relevant information to appropriate person in appropriate time and place.
	• We will test and fine-tune the integration of customer information system and provide trainings on the integrated systems to our staff.	• We have performed test, fine-tuned the integration of operation models and provided trainings on the system to our staff.

For the period from 1 July 2009 to 31 December 2009

	Business objectives as stated in the Prospectus	**Actual business progress for the period**
Enrich our product portfolio and extend our game life cycles	• We will launch two new games to the PRC market.	• We have launched two 2.5D MMORPGs online games Tian Yuan and Disney Fantasy Online in mainland China in December 2009.
	• We will rollout upgraded versions of our existing games.	• We rollout the Arabian expansion pack named Raiding Clans for Conquer Online. The expansion pack Demon Rising for English and Traditional Chinese versions of Eudemons Online were also launched. We also rollout expansion pack named Expanding Horizon for Thai and Vietnam versions of Zero Online.
	• We will customise our existing games into different languages.	• We have customised Traditional Chinese version of Way of the Five.
	• We will recruit additional experienced staff to operate our games, especially for the overseas operation.	• After near two year's expansion of the Group, we have implemented talent optimization project in the end of 2009 with an aim to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff members. Through the slowed down the recruitment and talent optimization project, we have employed 612 experienced employees to join our game operation team.

	For the period from 1 July 2009 to 31 December 2009	
	Business objectives as stated in the Prospectus	**Actual business progress for the period**
Expand our business through acquisition or cooperation with external parties	• We intend to acquire PRC or overseas medium size game development studios and game operators specialising in MMORPGs.	• We were negotiating with several potential PRC medium size game development studios and game operators specialising in MMORPGs to evaluate merger and acquisition possibilities.
	• We intend to establish cooperation partnership with PRC or overseas medium to large size well-known Internet portals.	• We were negotiating with several potential cooperation partnership with large size well-known Internet portals.
	• We will evaluate other merger and acquisition opportunities that complement or benefit our business strategies.	• Our business development team has continued to evaluate acquisition and merger activities that complement or benefit our business strategies.

For the period from 1 July 2009 to 31 December 2009

	Business objectives as stated in the Prospectus	Actual business progress for the period
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.	• The Group will continue to engage marketing consultants to formulate marketing strategies to promote our corporate image and our games.
	• We will continue the cooperation with well-known Internet portals for game promotion and corporate image advertisement.	• We have engaged well-known Internet portals for corporate image advertisement and game promotion.
	• We will continue to participate in game industry events.	• The Group is aggressively participating in the game industry events and activities, such as China Digital Entertainment Expo and Conference, China Game Industry Annual Conference, China International Digital Content Expo and China Online Game Award List.
	• We will engage a number of advertising agents to place advertisements on various media, including newspapers and magazines.	• The Group has engaged a number of advertising agents to place advertisements in various media.
	• We will engage an international public relationship firm to promote our corporate image in the online game industry.	• The Group will engage an international public relationship firm to promote our corporate image in the online game industry.

Comparison between proposed applications and actual applications of net proceeds raised from the placing of the Company's shares on GEM and the exercise of the over-allotment option in November 2007.

For the period from 1 January 2009 to 30 June 2009

Business Objectives	Proposed applications as set out in the Prospectus	Proposed applications as set out in the announcement for the change in use of proceeds on 22 October 2008	Actual amount of proceeds used
	HKD million	*HKD million*	*HKD million*
Further strengthen our core game development capabilities	19.3	19.3	73.0
Further enhance our integrated operation model	2.0	2.0	11.0
Enrich our product portfolio and extend our game life cycles	12.1	12.1	10.0
Expand our business through acquisition or cooperation with external parties	83.7	53.1	18.3
Strengthen our corporate image and promote our games	28.1	28.1	35.0
Working capital	17.3	47.9	—
Total	162.5	162.5	147.3

For the period from 1 July 2009 to 31 December 2009

Business Objectives	Proposed applications as set out in the Prospectus	Proposed applications as set out in the announcement for the change in use of proceeds on 22 October 2008	Actual amount of proceeds used
	HKD million	*HKD million*	*HKD million*
Further strengthen our core game development capabilities	15.9	22.8	102.5
Further enhance our integrated operation model	3.9	4.8	11.1
Enrich our product portfolio and extend our game life cycles	18.0	23.5	11.9
Expand our business through acquisition or cooperation with external parties	451.7	719.2	7.5
Strengthen our corporate image and promote our games	35.6	49.0	29.7
Working capital	50.2	60.1	—
Total	575.3	879.4	162.7

Corporate Milestones and Awards in 2009

Year 2009	**Corporate Milestone/Recognitions**	**Products Milestone/Awards**
During the year	• NetDragon was awarded "Platinum Award 2008/2009 for Charity Works"（2008/2009年度公益榮譽獎）and "Platinum Award of Corporate & Employee Contribution Programme"（商業及僱員募捐計劃榮譽獎）by the Community Chest of Hong Kong • NetDragon was elected as one of the "List of Potential Enterprises of China for 2009" by Forbes China • NetDragon (Fujian) was selected as「十大最具價值企業」("Top 10 Enterprises")* by「中國網絡遊戲產業十年）("A Decade of Chinese Online Game Industry")*	• Way of the Five was selected as 「最佳Q版網絡遊戲」("The Best Online Game of Animation Version")* by 「2009年度金翎獎」("the Golden Plume Awards")* • 91 Panda Reader ranked 18th among the Top 50 applications of mobile phone in China in 2009-2010
Feb	• NetDragon (Fujian) was honoured with 「福建省著名商標」("Fujian Renowned Trademark")* by 「福建省工商局行政管理局」("Fujian Administration for Industry and Commerce")*	
Apr	• TQ Digital was honoured with「福建省紅十字會人道金質獎章」("Red Cross Humanity Gold Medal of Fujian Province")* by 「福建省紅十字會」("Red Cross Society of China, Fujian Branch")*	

* *For identification purpose only*

Year 2009	Corporate Milestone/Recognitions	Products Milestone/Awards
Jul	• NetDragon (Fujian) was named as 「思想政治工作優秀企業」("Excellent Enterprise Award for Corporate Culture Construction")* in Fujian Province of 2007-2008 by the「中共福建省委宣傳部」("Propaganda Department of the CPC Fujian Provincial Committee")*,「中共福建省委組織部」the ("Organization Department of the CPC Fujian Provincial Committee")*, 「福建省人事廳」("Human Resources Department of Fujian Provincial")*,「福建省經濟貿易委員會」("Fujian Provincial Economic and Trade Commission")* and 「福建省總工會」("Fujian Provincial Federation of Trade Unions")* • NetDragon (Fujian) was named as the「企業思想文化工作聯繫點」 ("Communication Point of Corporate Culture")* by the「中共福建省委宣傳部」("Propaganda Department of the CPC Fujian Provincial Committee").*	• Eudemons Online was awarded the「最佳 MMORPG 獎」("Best MMORPG Award for 2009")* at the「2009 年度中國網吧遊戲盛典」("2009 Award Presentation Ceremony of Internet Cafe Games in China,")* • Way of the Five was awarded the「2009 年度最佳新鋭獎」("Best New Game for 2009")* at the「2009 年度中國網吧遊戲盛典」("2009 Award Presentation Ceremony of Internet Cafe Games in China")*
Aug		• Panda Desktop was selected as "The Best Home Replacement App" by AndroidGuys in the 1st Android Network Awards

* *For identification purpose only*

Year 2009	Corporate Milestone/Recognitions	Products Milestone/Awards
Sep	• NetDragon was selected as "Excellent Employer - 2009 Excellent Chinese Company for Employee" by Fortune (China) • NetDragon (Fujian) was accredited as the「福建第三產業企業300強」("Top 300 Enterprises in Tertiary Industry of Fujian Province")* by「福建省區域和企業評估中心」("Fujian Enterprise Evaluation Center")* and「福建省企業評價協會」("Fujian Enterprise Evaluation Association")* • TQ Digital was elected as one of the「福建第三產業300強」("Top 300 Enterprises in Tertiary Industry of Fujian Province")* by「福建省區域和企業評估中心」("Fujian Enterprise Evaluation Center")* and「福建省企業評價協會」("Fujian Enterprise Evaluation Association")*	• Eudemons Online was appraised as an「2009中國創新軟件產品」("Innovative software product of China for 2009")* by「中國軟件行業協會」("China Software Industry Association")*
Nov		• Way of the Five was elected as one of「2009年度十大風雲網絡遊戲」(the "2009 Top 10 Best Online Game")* by the「大眾網絡報媒體群」("media group of Pop Net")*
Dec	• NetDragon (Fujian) was awarded the「2009年度中國遊戲行業優秀企業」("Outstanding Enterprise of China Game Industry in 2009")* by「中國遊戲行業年會」the ("China Game Industry Annual Conference")* • NetDragon (Fujian) was awarded as「2009中國優秀網路文化企業頒獎盛典－網絡遊戲原創獎」("The Best Original Online Game" at the "Enterprise of Outstanding Internet Culture Award Presentation Ceremony 2009")* by「中國國際網絡文化博覽會組委會」("Organizing Committee of China International Digital Content Expo")*	• Eudemons Online was selected as the「2009年度最受歡迎十大網絡遊戲」("Top 10 Most Popular Online Game of 2009")*,「2009年中國十佳2D網遊」("Top 10 Excellent 2D Online Games in China of 2009")* and「2009年中國十佳原創網遊」("Top 10 Excellent Original Online Games in China of 2009")* by「2009年度中國網絡遊戲風雲榜」("2009 China Online Game Billboard")* • Disney Fantasy Online was named as the「2009年度最受期待網絡遊戲」("Most Anticipated Online Games for 2009")* at「2009年度中國遊戲行業年會－金手指獎項」the ("Goldfinger Award Election Campaign of the China Game Industry Annual Conference")*

* *For identification purpose only*

Year 2009	Corporate Milestone/Recognitions	Products Milestone/Awards
	• NetDragon was named as the 「2009年中國十佳網遊公司」("Top 10 Online Game Companies in China of 2009")* by「2009年度中國網絡遊戲風雲榜」("2009 China Online Game Billboard")* • NetDragon (Fujian) was selected as one of the「2009年度十大網絡遊戲運營商」("Top 10 Game Operator in China of 2009")* by the「大眾網絡報－媒體群」("media group of Pop Net")* • TQ Digital was graded as「企業信用評價AAA級信用企業」("AAA Enterprise Credit the Enterprise Credit Evaluation")* by 「中國軟件行業協會」("China Software Industry Association")*	
Year 2010 Jan	• NetDragon was awarded by the「大連2009年度中國遊戲產業年會」("China Game Industry Annual Conference 2009 in Dalian")*, including: — 「2009年度中國遊戲產業特別獎」("China Game Industry Annual Conference Special Award for 2009")* — 「2009年度中國民族遊戲海外拓展獎」("Award for Overseas Development of Chinese Domestic Games for 2009")* — 「2009年度中國十佳遊戲開發商」("Top 10 Games Developers in China for 2009")*	• In the「騰訊2009中國網絡遊戲風雲榜」("Tencent Online Game Award List for 2009")* : — Way of the Five and Heroes of Might and Magic Online were named as the「年度十大新銳遊戲」("Top 10 Pioneering Online Games")* — Tian Yuan was named as the「十大最受期待網遊」("Top 10 Most Anticipated Online Games")*

* *For identification purpose only*

(6) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2009, we had bank deposits, bank balances and cash of approximately RMB1,257.0 million as compared with approximately RMB961.5 million as at 31 December 2008.

As at 31 December 2009, the Group had net current assets of approximately RMB1,272.3 million as compared with approximately RMB1,321.2 million as at 31 December 2008.

(7) GEARING RATIO

As we did not have any interest bearing bank loans, our gearing ratio was zero as at 31 December 2009 and 31 December 2008.

(8) CAPITAL STRUCTURE

As at 31 December 2009, the Group's total equity amounted to approximately RMB1,455.8 million (2008: RMB1,453.8 million). Net current assets of the Group amounted to approximately RMB1,272.3 million (2008: RMB1,321.2 million).

(9) USE OF PROCEEDS FROM PLACING

As at 31 December 2009, the Group used approximately HKD310.0 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 this section under the paragraph "Comparison of business objectives and actual business progress".

(10)FOREIGN CURRENCY RISKS

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

The Group operates mainly in the PRC. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB. However, the Group also has operations in Hong Kong and the USA and the business transactions conducted there during the year were mainly denominated and settled in HKD and USD, respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and affective manner.

(11)CREDIT RISKS

As at 31 December 2009, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings and there is no significant concentration of credit risk.

The Group has no significant concentration of credit risk on trade and other receivables with exposure spread over a number of counterparties and customers.

(12)PROSPECTS AND OUTLOOK

Looking into 2010, the Group plans to further enhance its core game development capabilities, streamline its integrated model of operation, strengthen marketing efforts and channel management, expand its product mix and extend the life span of its online games in order to enhance the Group's revenue base.

MMORPGs

The Group will continue to invest in the development of new and creative online games to attract and retain larger player bases. It also intends to develop new MMORPGs to expand its game portfolio. Currently, the Group has a number of online games in the pipeline, these include:

Dungeon Keeper Online

The Group entered into licensing agreement with EA to develop the Group's first 3D MMORPG based on EA's Dungeon Keeper™ line of games. The Group also obtained the exclusive license to operate and distribute Dungeon Keeper Online throughout the Greater China region, including Hong Kong, Taiwan and Macau. Dungeon Keeper™ is a PC strategy game in which the players attempts to build and manage a dungeon or lair while protecting it from computer-controlled 'hero' characters intent on stealing the users' accumulated treasures and killing various monsters. The game was released by EA in 1997 which has gained positive market reaction and accumulated a sizable of player base. Dungeon Keeper Online is expected to be officially launched in 2010.

Ultima Online

The Group entered into licensing agreement with EA for the development of its MMORPG based on EA's Ultima Online™. The Group also obtained the exclusive license to operate and distribute Ultima Online throughout China, Hong Kong, Macau and India. Ultima Online was released in September 1997, which is one of the longest-running games in MMORPGs history. The first widely successful graphical online role-playing game, Ultima Online has thrived for over a decade, with legions of devoted followers around the world. Fans of the game continue to experience an epic storyline set in an ever-growing world of magic and fantasy. Ultima Online has spawned seven expansions and dozens of content updates, making it one of the deepest, largest MMORPG ever created.

CJ7 Online

The Company had signed a content development and distribution agreement with Shanghai Baihai Information Technology Co., Ltd in developing and distributing a new online game namely CJ7 Online. CJ7 Online is being developed based on the theme, contents and characters of the same named movie "CJ7" and the Group has the right to distribute the game in the PRC.

Aside from developing more new game titles, the Group will also continue to focus on updating its existing MMORPGs. This will help provide weekly and quarterly updates for its existing games to include such features as new virtual items and tasks. Before the date of this report, the Group has rolled out at least two major expansion packs for our online games.

The Group is striving to further expand its player base by working with local game operators to selectively offer its in-house developed online games to other markets. Before the date of this report, the Group has launched the open beta testing for Traditional Chinese version of Way of the Five in Taiwan, Hong Kong and Macau by licensing to a Taiwan-based cooperation partner. Besides that, it will continue to pursue myriad opportunities to create online games based upon popular third-party intellectual property.

Other Online Games

In addition to the above-mentioned MMORPGs, the Group has also researched and developed different types of games, which include (i) action role playing games ("ARPG"); (ii) first-person shooting games ("FPS"); and (iii) action games ("ACT"). The Group is undergoing research and development for the following games and expected to be launched to the market in 2010:

Legend of the Dark* ("暗夜傳説")

This is a ARPG game featuring the fighting between human being and the vampire. In order to attract more user groups, players can choose to play as human or vampire, and as a result of which, two confronting groups are formed in the game.

* *For identification purpose only*

Doomsday* (" 末日危機 ")

This is a realistic ARPG with a theme of defeating the zombie in the realistic world highlighting the excitement of fighting by incorporating cyber and trendy elements.

Stock Tycoon* (" 股市大亨 ")

This is a game co-developed by the Group and a renowned financial channel. In the game, there is a brief introduction of various financial products and the data of the game is associated with the real stock market, allowing the players to have unprecedented realistic experience in the virtual world.

Cross Gate* (" 時空之門 ")

As different from the traditional games offered by the Group, this action game incorporates unique combating elements with more emphasis on actions, fighting, and rhythms to create more excitement for players.

The Group believes that rapid and high-quality game development is critical to its success. It will continue to invest in, and significantly expand its game development capabilities through the recruitment of experienced, top quality game developers and designers. These updates will improve its games' appeal and help maintain their marketability. The Group will also further strengthen its online security and employ defensive measures to prevent the emergence of private servers while reducing any potential negative impact.

Furthermore, the Group will engineer its game development automation software to replace certain manual and repetitive tasks, which should lead to improve efficiency in the game development process. Additional computers and software will be purchased to accelerate game development procedures. With a modified and enhanced game development platform and professional game development team, the Group will be able to lay a solid foundation to rapidly and frequently develop and introduce new online games and new expansion packs to its existing games.

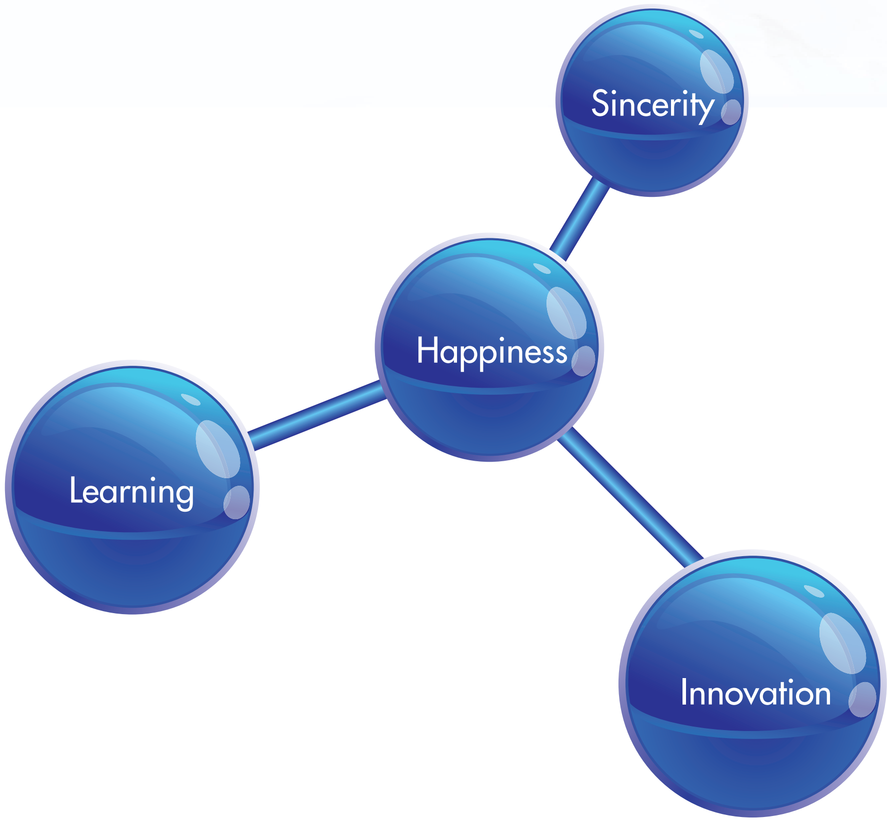
To cope with the path of strengthening of the game development process, the Group also continues to enhance its integrated operation model including business process management system, time management system, bug management system, production schedules system and version management system, which should help to improve the efficiency in the game operation, project management and office administrative processes. At of 31 December 2009, the Group had 221 members being employed for the enhancing its integrated operation model.

* *For identification purpose only*

Corporate Culture and Social Responsibilities

CORPORATE CULTURE

The DNA of NetDragon's corporate culture comprises of "happiness, learning, innovation and sincerity". In the face of new development opportunities, and based on the two principles of "Human Resource Development" and "Provide Happy Experience to Customers", NetDragon creates a "wonderland" full of joy to be shared by our staff, customers and partners by innovation and exploration.



"Happiness, learning, innovation and sincerity" are DNA components of NetDragon's corporate culture and cultural DNA of all staff in NetDragon.

Happiness

- games can be found everywhere in NetDragon
- we enjoy our work, and discover, design and deliver happiness
- our happiness = sense of growth (learning) + sense of accomplishment (innovation) + sense of belongings (sincerity)

Learning

- learning is competitiveness, and brings our outstanding and rapid development
- learning is practice; learn to work and work to learn
- sense of accomplishment is gained from learning

Innovation

- everyone work in NetDragon follows the rule of uniqueness
- everyone in NetDragon bears passion to create
- sense of achievement is gained from innovation

Sincerity

- we appreciates frankness in communication
- we care about "What is right" instead of "Who is right"
- we share the sense of belonging

During the year under review, with the implementation of eSOP in the Company, the staff are able to learn through innovation which includes new tools, new ways of thinking and new methods. Machines will be used to handle repeated and onerous tasks which release the staff to focus on creation and enjoying their works.

eSOP = Best practice x IT x concept of deconstruction

eSOP is evolved from SOP and is a perfect combination of IT and SOP

eSOP can deliver relevant information to appropriate person in appropriate time and place

Mission of ESOP: releasing workforce from simple and repeated tasks which allow staff to have more time on creation

During the year, the Company has completed certain standardization of SOP, abandoned original SOP which is not applicable, and incorporated the intranet SOP into the eSOP system for dynamic adjustment and e-management. Each department will identify defects in its process on daily, weekly or monthly basis, with an aim to achieve a full coverage of eSOP of 100%.

Corporate Culture and Social Responsibilities

CORPORATE SOCIAL RESPONSIBILITIES

As one of the leading online game developers and operators in China, NetDragon prides itself on being widely recognized as a responsible corporate citizen. We aim to develop and market creative and innovative online gaming products while at the same time maintaining our deep commitment to the well-being of the community and our employees.

The Group has been actively engaged in a number of charitable events over the past year, including some of which were initiated by our own. The Group established the NetDragon Charity Committee in Fuzhou headquarter in June 2008 to carry out community and charity work.

The Charity Committee encouraged the staff to actively participate in charity through all members participation. This helps to build a charity brand of NetDragon, and raise our corporate brand culture by participating charity activities regularly in long term.

Long-term and regular charity activities received active response and support from the students and were recognized and appreciated by charity organizations in the community. NetDragon has received silk banners from the relevant organizations.

Activities organised by the Charity Committee in 2009 includes:

2009	**Activities**
Mar	• Staff blood donation.
Apr-Jun	• Charity book bazaars organised with local companies, which received support from the students. Funds raised were donated to orphanages.
May	• 1 June charity activity, "Feel the love in Fuzhou Mercy Field Home",（「閩侯善恩園，感受被愛」）, to celebrate the 1 June festival in advance with the children in Mercy Field Home.
Sep	• Visiting the elderly in Hongshan Elderly Centre（「洪山老人院」）by the Charity Committee and students with their blessings and celebrating the Mid-Autumn Festival together. NetDragon continues to engage in charity work.

In order to cultivate a spirit of business and entrepreneurship among young people, the Group continued to support the（「福建海西青年創業基金會」）formerly named "Fujian NetDragon Youth Business Foundation"（「福建網龍青年創業基金會」）in 2009 to (i) provide free training programmes as well as marketing and promotional support; (ii) to help young people start their own business ventures; and (iii) assist in applying collateral-free loans in Western area of Fujian Province.

HUMAN RESOURCES

The Group considers human resource talent as our most valuable asset and vital to our overall business development. In order to expand and diversify its game offerings, extend the reach of its products in existing and new markets, further leverage the inherent advantages of vertical integration as a developer and operator of online games and explored different opportunities by developing mobile software applications, the Group has increased its overall staff headcount to a total of 2,901 as at 31 December 2009. This compares with a total of 2,426 as of 31 December 2008.

Same as last year, the Group had recruited talented graduates to enlarge its development team from universities in major cities in the PRC.

Commencement of NetDragon's Talent Optimization Project

At the end of 2009, NetDragon has commenced the talent optimization project. The objectives of talent optimization are to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff members.

The Company has streamlined its operations as well as research and development projects. Having considered the market conditions and its own needs, the Company has cancelled some of the projects based on their input and output. Some staff in these projects was transferred to other projects while the remaining had been laid off.

The Company has implemented a year-end performance assessment. For some staff with low ranking, improvement plans were formulated according to the compulsory specified proportion while some will be laid off.

In 2010, the Company will recruit new talents with excellent professional capabilities in the industry pursuant to the needs of our projects, which will help to optimize the staff structure.

The commencement of talent optimization project has enhanced the mobility of staff and maintained the momentum of NetDragon. This also lowered the labour cost and stimulated staff spirit and sense of responsibility.

TRAINING AND TRAINING SYSTEM

Staff training is crucial to the Group's human resources management and development. The Group's training centre is called NetDragon University. Founded in 2007, NetDragon University is the first university established by an enterprise in the domestic online games industry. As the base for training talents for the strategic development of the Group, the Group also provides regular on-the-job training by organising courses that are well received by the staff. It also coordinated with high schools to provide undergraduate internship training and customized training that are well received by the undergraduates and management of high school.

During the year under review, the Group has offered about 25 management courses and technical courses of three aspects including game programming, arts of game and game planning for staff of different levels and professions. Renowned domestic professionals and professors from different industries and professions lead training programmes to enhance the managerial skills and professional standards of its workforce. Number of participants exceeded 3,500.

Staff Relationship and Welfare

WORKING ENVIRONMENT

We provide all our staff with a friendly and enjoyable working environment which is spacious and offers diversified staff facilities, including a 24-hour canteen, activities rooms, indoor and outdoor swimming pools, basketball court, badminton court, tennis court, squash court and fitness centre. Such pleasant working area not only improves the sense of belonging among our staff, but also helps enhance their efficiency and creativity.

We also organize various staff activities like the 91 Carnival, Sports Day and New Year Gala. This year is the 10th anniversary of the Group, we hosted the "91 Carnival" and "A Grateful Decade Full of Boundless Dreams - NetDragon Awards Ceremony" in the（「福建省體育中心」）("Sports Center of Fuijian Province")*. In the Ceremony, we say thanks to the loyalty staff, give prizes to the staff have significant contributions and outstanding performance.

* *For identification purpose only*

EXECUTIVE DIRECTORS

Liu Dejian, aged 38, 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 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 Biological Research Centre, Inc ("Beso") from 1995 to 2005. He was also the vice-president of Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("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 2009 (2009年度中國遊戲產業最具影響力人物) in the Chinese Game Industry Annual Conference 2009 in January 2010. He was also awarded as"Excellent Entrepreneur of China Game Indsutry (中國遊戲行業優秀企業家)" in the China Game Industry Annual Conference in December 2009. 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 also a director of Glory More Limited, Key Command Limited, NetDragon (Hong Kong) and NetDragon Websoft Inc. ("NetDragon (BVI)"), subsidiaries of the Company. Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

Liu Luyuan, aged 36, Executive Director, Chief Executive Officer and one of the authorized 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 or 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銳人物) in Chinese Game Industry Annual Conference 2007 in January 2008. He was also awarded as Outstanding Contribution Entrepreneur of Fujian Province (福建省突出貢獻企業家) and People's Representative of Politic Appraisal (Efficiency Supervisor)(民主評議政風行風代表(效能監督員)) in March 2009. 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 also a director of NetDragon (BVI), a subsidiary of the Company. Mr. Liu is a brother of Liu Dejian and a cousin of Zheng Hui.

Zheng Hui, aged 41, 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 NetDraong (Fujian) since 1999. Mr. Zehng 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 37, Executive Director, Vice President, Chief Technology Officer

Mr. Chen is our chief technology officer and is also a director of NetDragon (BVI), subsidiary of the Company. 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 gradated with a Bachelor's degree in Mechanical-Electrical Integration from the Beijing University of Aeronautics and Astronautics in 1995.

NON EXECUTIVE DIRECTOR

Lin Dongliang, aged 47, Non executive Director

Mr. Lin was appointed a non executive Director on 15 October 2007. 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.

INDEPENDENT NON EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 44, 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 President, Chief Eexecutive Officer and Director of SINA Corporation, a publicly listed company in Nasdaq. Mr. Chao joined SINA Corporation as a Vice President of Finance in 1999 and served as its Co-Chief Operating Officer, President and Chief Financial Officer before his current position as the President and Chief Executive Officer. Prior to joining SINA, Mr. Chao served as an experienced audit manager in PricewaterhouseCoopers LLP to provide audit and business consulting services for companies in Silicon Valley, California. Mr. Chao is currently a director of Focus Media Holding Limited, a publicly listed company in Nasdaq. Mr. Chao has been appointed as a Co-Chairman of the Board of Directors of China Real Estate Information Corporation, a publicly listed company in Nasdaq, since October 2009. Mr. Chao is a certified public accountant and a member of the American Institute of Certified Public Accountants. 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 44, 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 solicitor in Hong Kong in 1991 and in England and Wales in 1997. Mr. Lee is currently an independent non executive director of GZI REIT Asset Management Limited (being the manager of GZI Real Estate Investment Trust), Embry Holdings Limited, Asia Cassava Resources Holdings Limited and Futong Technology Development Holdings Limited, the shares of these companies are listed on the Stock Exchange. Mr. Lee was also a non executive director of Mirabell International Holdings Limited from February 2000 to December 2008 and GST Holding Limited from December 2004 to December 2009, which listing of their shares on the main board of the Stock Exchange have been withdrawn on 22 September 2008 and 18 December 2009 respectively. 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 37, Independent non executive Director

Mr. Liu is the managing director of Vision Capital Group. He was appointed as an independent non executive Director on 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 Angels, 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. Prior to joining Vision Capital Group in 2009, he served as the managing director of strategic investment of GroupM China from 2007 to 2009 and the vice president of Star Group Limited from 2006 to 2007. He has also served as a business development director in TOM Online Limited, and an investment banking associate of the New York office of Lehman Brothers Inc.

SENIOR MANAGEMENT

Wu Chak Man, aged 38, 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. 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 33, Vice President, Director of TQ Digital and NetDragon (Fujian)

Mr. Wu graduated with a Bachelor's degree in Applied Mathematics from the University of Fuzhou in 1999. He has over ten 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.

Rhee Kwanwoo, James, aged 42, Vice President, Corporate Development

Mr. Rhee joined us in June 2008 and is responsible for investor relations and strategic planning of the Group. Before joining us, Mr. Rhee was an equities analyst with Bear Stearns in Hong Kong and Dresdner Kleinwort Benson in Seoul, and had previously served as an attorney for corporations in Seoul and Singapore. He graduated with a Bachelor's degree in East Asian Studies from Wesleyan University in 1989 and a Juris Doctorate from The University of Connecticut School of Law in 1995. He is a Chartered Financial Analyst and is admitted to practice law in the state of New York.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Tam Hon Shan, Celia, aged 37, 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 are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2009.

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

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 principal subsidiaries are set out in note 35 of Notes to the Consolidated Financial Statements.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2009 are set out in the Consolidated Statement of Comprehensive Income on page 91.

The interim dividend of HKD 0.082 per share amounting to approximately HKD43,343,000 for the six months ended 30 June 2009 had been approved by the Directors and was paid on 14 September 2009.

The Directors now recommend the payment of a final dividend of HKD0.05 per share. The final dividend is expected to be payable on or around 1 June 2010 to shareholders whose names appear on the register of members of the Company on 24 May 2010, amounting to approximately HKD26,428,000.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2009.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2009 set out in note 12 of Notes to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements of the Company's issued share capital for the year ended 31 December 2009 are set out in note 26 of Notes to the Consolidated Financial Statements.

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2009 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2009, the Company's reserves available for distribution to shareholders were approximately RMB15,305,000 (2008: RMB52,117,000), which comprises the dividend reserve of approximately RMB23,270,000 (2008: RMB51,275,000) and accumulated loss of approximately RMB7,965,000 (2008: retained profit RMB842,000) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers accounted for 4.8% 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 93.2% and 44.4%, 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.

Report of the Directors

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 Director

Mr. Lin Dongliang

Independent non executive Directors

Mr. Chao Guowei, Charles *(Notes 1, 2, 3, 5)*
Mr. Lee Kwan Hung *(Notes 1, 3, 4, 5, 7, 8)*
Mr. Liu Sai Keung, Thomas *(Notes 1, 3, 5, 6, 7)*

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
7. Member of Share Award Scheme Committee
8. Chairman of Share Award Scheme 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 Director and independent non executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commenced on 24 June 2008 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 determination of the salary payment to the Directors will be based on salaries paid by comparable companies, time commitment, the duties and responsibilities of the Directors in the Company, the Company's performance and its remuneration policy.

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, Liu Dejian, Liu Luyuan and Chao Guowei, Charles will retire by rotation at the forthcoming annual general meeting (the "AGM"). Liu Dejian, Liu Luyuan and Chao Guowei, Charles, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company. None of the Directors proposed for re-election 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 compensation).

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.

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the changes of information on the Directors are as follows:

The annual emolument of Mr. Chao Guowei, Charles, an independent non executive Director, have been revised from RMB180,000.00 to RMB250,000.00.

The annual emolument of Mr. Lee Kwan Hung, an independent non executive Director, have been revised from RMB240,000.00 to RMB250,000.00.

Mr. Liu Sai Keung, Thomas, an independent non executive Director, have received RMB250,000.00 for the annual emolument.

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

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underling shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
Liu Dejian *(Note 2)*	The Company	Beneficial owner and through controlled corporations	274,617,220 (L)	51.95%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Dejian *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and through controlled corporations	274,417,220 (L)	51.91%
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	273,017,220 (L)	51.65%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Zheng Hui *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and through a controlled corporation	14,700,000 (L)	2.78%
Chao Guowei, Charles	The Company	Beneficial owner	98,510 (L)	0.01%
Lee Kwan Hung	The Company	Beneficial owner	98,510 (L)	0.01%
Liu Sai Keung, Thomas	The Company	Beneficial owner	98,510 (L)	0.01%

Notes:

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

2. Liu Dejian is interested in 95.40% of the issued share capital of DJM Holding Ltd., which in turn is interested in 35.01% of the issued share capital of the Company.

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

   Zheng Hui is interested in 4.60% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 35.01% and 5.41%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.23% of the issued share capital of the Company.

   Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.65% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company granted 1,600,000 share options and 1,400,000 shares options of the Company to Liu Dejian and Liu Luyuan, respectively.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who 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 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.48% of the issued share capital of the Company. Chen Hongzhen had been granted 1,600,000 share options of the Company on 7 December 2009, which represent 0.3% of the issued share capital of the Company. Chen Hongzhan is therefore deemed to be interested in aggregate of 2.78% of the issued share capital of the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2009, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 31 of the Notes to the Consolidated 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 interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

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

So far as is known to the Directors, as at 31 December 2009, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	**Name of Group member**	**Capacity and nature of interests**	**Number of ordinary shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM Holding Ltd.	The Company	Beneficial owner	185,078,100 (L)	35.01%
Fitter Property Inc.	The Company	Beneficial owner	28,641,400 (L)	5.41%
Eagle World International Inc. *(Note 2)*	The Company	Beneficial owner	32,952,920 (L)	6.23%
Flowson Company Limited *(Note* 2)	The Company	Through a controlled corporation	32,952,920 (L)	6.23%
IDG Group *(Note 3)*	The Company	Beneficial owner	78,333,320 (L)	14.83%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000 (L)	99.00%

Notes:

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

2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the British Virgin Islands ("BVI") with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.23% of the issued share capital of the Company through its shareholding in Eagle World International Inc..

3. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.06%, 9.84%, 2.01% and 0.92%, respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships are as follows:

    a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Patrick J. McGovern.

    b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Patrick J. McGovern.

    c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by James W. Breyer.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2009.

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 (together with the contracts entered into between NetDragon (Fujian) and Fujian TQ Online Interactive Inc. ("TQ Online") as set out below, "Structure Contracts"), which superseded the cooperation arrangements between TQ Digital and NetDragon (Fujian) effective from 1 January 2007.

In view of the new enterprise income tax law adopted by the National People's Congress of the PRC on 16 March 2007, a wholly foreign owned enterprise, TQ Online, has been set up to gradually substitute TQ Digital in our operation. TQ Online has entered into the Structure Contracts with NetDragon (Fujian) on 16 May 2008. As TQ Digital is and will still be the party operating the existing versions of the Group's online games, all Structure Contracts entered into between TQ Digital and NetDragon (Fujian) will not be replaced by the Structure Contracts entered into between TQ Online and NetDragon (Fujian).

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 and TQ Online 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.

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

Cooperation Framework Agreement (Cont'd)

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 and 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 "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.

On 16 May 2008, TQ Online and NetDragon (Fujian) entered into another corporation framework agreement with the same terms as the original Cooperation Framework Agreement, save as to the date, duration and the substitution of TQ Digital by TQ Online. The term of such cooperation framework agreement is 10 years commenced from 16 May 2008 and ending on 15 May 2018, and automatically renewable for successive 10-year terms provided that TQ Online does not issue any notice of termination one month before the termination date.

As a result of the Structure Contracts, TQ Digital and TQ Online are able to control NetDragon (Fujian) and NetDragon (Shanghai), 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 Agreements, TQ Digital and TQ Online (where relevant) entered into (1) cooperation and license agreements in respect of online games; (2) online games software development service agreements; and (3) technical support service agreements with NetDragon (Fujian), for the purpose of license, development of online games and provision of technical services 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 commencing from 01-01-2007 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 commencing from 01-01-2007 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 commencing from 01-01-2007 to 31-12-2016 • Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
16-05-2008	Online game software Development service Agreement	TQ Online will provide online software development service to NetDragon (Fujian)	• 10 years commencing from 16-05-2008 to 15-05-2018 • Consideration of a service fee
16-05-2008	Technical support service agreement	TQ Online would provide technical support services to NetDragon (Fujian)	• 10 years commencing from 16-05-2008 to 15-05-2018 • Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
01-03-2009	Cooperation and license agreements in respect of online game	TQ Online will license online game softwares to NetDragon (Fujian) for use in PRC	• 10 years commencing from 01-03-2009 to 28-02-2018 • Consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

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.

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).

Other Contracts

In addition to the Structure Contracts, a service agreement (the "Original Service Agreement") which took effect on 1 July 2007, was entered into by and between NetDragon Websoft Inc. ("NetDragon (USA)") and NetDragon (Shanghai) pursuant to which NetDragon (Shanghai) will provide various services to NetDragon (USA) in exchange for a flat fee calculated based on the number of servers running certain non-Chinese language games. The Original Service Agreement was terminated by the parties thereto on 31 October 2008 for internal restructuring purpose. On 1 November 2008, NetDragon (Shanghai) entered into another service agreement (the "Existing Service Agreement") with NetDragon (Hong Kong) with the similar terms as and in substitution of the Original Service Agreement. Pursuant to the Existing Service Agreement, NetDragon (Shanghai) will: (1) provide email correspondence to answer inquiries from customers including payment and password related issues; (2) handle customer complaints regarding hacked accounts and assist such customers in resolving their concerns; and (3) monitor the status of certain servers and perform server maintenance when needed. The term of the Existing Service Agreement is five years.

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

Other Contracts (Cont'd)

The Directors expect that there may be other contracts, such as service agreement and/or cooperation and license agreement, to be entered from time to time (together with the Original Service Agreement and the Existing Service Agreement, the "Other Contracts") between the Company and its subsidiaries on the one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other after NetDragon (Shanghai) has obtained the requisite licenses for providing Internet content and operating online games. Save as the Original Service Agreement and the Existing Service Agreement, as at 31 December 2009, no Other Contract has been entered into.

Waiver from the Stock Exchange and Annual Review

As Liu Dejian, Liu Luyuan and Zheng Hui, being the executive Directors and the controlling shareholders of the Company, are interested in an aggregate of 98.86% in NetDragon (Fujian), NetDragon (Fujian) and 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, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other hand, including the Structure Contracts and the Other Contracts, would technically constitute connected transactions under the Listing Rules. The Stock Exchange has granted a specifc waiver to the Company from strict compliance with the connected transactions requirement of Chapter 14A of the Listing Rules in respect of the Structure Contracts and the Other Contracts.

The Company's independent non executive Directors have reviewed the Structure Contracts and the Other Contracts and confirmed that the relevant transactions carried out thereunder during the year ended 31 December 2009 have been entered into in accordance with the relevant provisions of the Structure Contracts and the Other Contracts, have been operated so as to allow the economic interest generated by NetDragon (Fujian) and NetDragon (Shanghai) to be flowed to TQ Digital and TQ Online and the Existing Service Agreement was entered into on terms that are fair and reasonable so far as the Company is concerned and in the interests of the shareholders of the Company as a whole.

NetDragon (Fujian) and NetDragon (Shanghai) have provided to the Company an undertaking that they will allow the Company and its auditor to have full access to relevant records of NetDragon (Fujian) and NetDragon (Shanghai) for the purpose of the Company's auditor to perform the agreed upon procedures of the transactions referred to above.

CONNECTED TRANSACTIONS (Cont'd)

Continuing Connected Transactions

Certain transactions (the "Transactions") entered into by the Group constituted continuing connected transactions under the Listing Rules. Details of the Transactions subsisted during the year under review are set out as follows:

1. **Transaction in relation to the Tenancy Agreements between TQ Digital, NetDragon (Fujian) and Fuzhou 851**

   On 22 January 2009, TQ Digital, as tenant, entered into an tenancy agreement (the "Tenancy Agreement I") with Fuzhou 851, as landlord, with respect to the lease of certain office premises located in Fuzhou City, Fujian Province, the PRC for general office purposes to supersede an old lease agreement proposed to entered into pursuant to a letter of intent between NetDragon (Fujian) and Fuzhou 851. The term of the Tenancy Agreement I is for a period of 3 years commencing from 22 January 2009 to 21 January 2012 (both days inclusive).

   On 22 January 2009, NetDragon (Fujian), as tenant, entered into an tenancy agreement (the "Tenancy Agreement II") with Fuzhou 851, as landlord, with respect to the lease of certain office premises located in Fuzhou City, Fujian Province, the PRC for general office purposes to supersede an old lease agreement between TQ Digital and Fuzhou 851 dated 30 May 2007 and an old lease agreement between NetDragon (Fujian) and Fuzhou 851 dated 30 May 2007. The term of the Tenancy Agreement II is for a period of 3 years commencing from 22 January 2009 to 21 January 2012 (both days inclusive).

   Fuzhou 851 is a connected person of the Company under the Listing Rules. The Transactions under the Tenancy Agreement I and the Tenancy Agreement II (collectively the "Tenancy Agreements") constitute continuing connected transactions of the Company and should be aggregated under the Listing Rules. The aggregate annual cap for the Tenancy Agreements based on the total annual rental payable under the Tenancy Agreements for each of the financial years ending 31 December 2009, 2010 and 2011 will not exceed RMB2,544,384 (equivalent to approximately HKD2,875,154).

2. **Transaction in relation to Recreation Centre Agreement between TQ Digital and Fuzhou 851**

   On 24 April 2009, TQ Digital entered into a recreation centre agreement (the "Recreation Centre Agreement") with Fuzhou 851, pursuant to which Fuzhou 851 agreed to provide the services and usage of various recreation facilities at a recreation centre situated at Fuzhou City, Fujian Province, the PRC to the Group and its staff for a period from 25 April 2009 to 24 April 2012 at a monthly fee of RMB500,000 (equivalent to approximately HKD567,500).

CONNECTED TRANSACTIONS (Cont'd)

Continuing Connected Transactions (Cont'd)

2. Transaction in relation to Recreation Centre Agreement between TQ Digital and Fuzhou 851 (Cont'd)

Fuzhou 851 is a connected person of the Company under the Listing Rules. The Transactions under the Recreation Centre Agreement constitute continuing connected transactions of the Company under the Listing Rules. The annual cap based on the total annual service fee payable under the Recreation Centre Agreement for each of the financial years ending 31 December 2009, 2010 and 2011 on annual basis will not exceed RMB6,000,000 (equivalent to approximately HKD6,810,000), being the monthly service fee of RMB500,000 (equivalent to approximately HKD567,500) multiplied by 12 months.

3. Transaction in relation to Service Agreement between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang Network Technology Company Limited

On 15 October 2007, TQ Digital and NetDragon (Fujian) have entered into an agreement (the "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 Service Agreement is for two and a half years commenced from 1 July 2007 to 31 December 2009. The annual cap based on the total annual service fee payable for provision of repair and maintenance of computer system service and after-sale service under the Service Agreement for the financial years ending 31 December 2009 does not exceed RMB3,461,000 (equivalent to approximately HKD3,928,235).

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.

CONNECTED TRANSACTIONS (Cont'd)

Continuing Connected Transactions (Cont'd)

3. Transaction in relation to Service Agreement between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang Network Technology Company Limited (Cont'd)

Since the Service Agreement has been expired on 31 December 2009, the Board announced that NetDragon (Fujian) entered into the new service agreement (the "New Service Agreement") with Fuzhou Tianliang on 29 December 2009, pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2010 to 31 December 2012. The Directors estimate that the annual caps for value of the Transactions under the New Service Agreement for each of the three years ending 31 December 2012 are as follows:

	Year ending 31 December 2010	**Year ending 31 December 2011**	**Year ending 31 December 2012**
	RMB	*RMB*	*RMB*
Computer system repair and maintenance fees	2,500,000	2,600,000	2,600,000
After-sales service charges	11,500,000	12,200,000	12,200,000
Total:	14,000,000	14,800,000	14,800,000

With reference to the announcement of 27 April 2009, the original shareholders of Fuzhou Tianliang have been changed, thus, Fuzhou Tianliang is deemed to be a connected person to the Company.

The independent non executive Directors have reviewed the above Transactions conducted during the year and confirmed that the Transactions:

(i) have been entered into in the ordinary and usual course of the business of the Group;

(ii) have been entered into 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;

(iii) have been entered into in accordance with the Tenancy Agreements, the Recreation Centre Agreement, the New Service Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded their respective annual caps for the year ended 31 December 2009 as disclosed in the relevant announcement of the Company.

The above Transactions are also disclosed in note 31 of the Notes to the Consolidated Financial Statements as related party transactions of the Group.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the Structure Contracts, the Other Contracts and the Transactions of the Group. The auditor has reported the factual findings on these procedures to the Board, in compliance with the Rule 14A.38 of the Listing Rules.

BOARD PRACTICES AND PROCEDURES

To the best knowledge of the Directors, the Company has complied with the requirements under the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules during the year under review.

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 to offer new shares on a pro rata basis to existing shareholders of the Company.

COMPETITION AND CONFLICT OF INTEREST

Save as disclosed in the Listing Document, none of the Director or any of their respective associates, as defined in the Listing Rules, has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at 31 December 2009 and as at the date of this report.

CHANGE OF AUDITOR

During the year, Messrs. Grant Thornton, who acted as auditor of the Group for the past three years, resigned and Messrs. Deloitte Touche Tohmatsu ("Deloitte") was appointed as auditor of the Company. A resolution will be submitted to the AGM to re-appoint the auditor, Deloitte.

POST BALANCE SHEET EVENT

At 31 December 2009, the Group has paid a deposit of approximately RMB8,895,000 for the acquisition of land use rights in Fuzhou, the PRC. On 26 February 2010, the Group has successfully bid for a parcel of land use rights with the contract sum of amounting to RMB33,208,000.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of its listed securities.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained the prescribed public float under the Listing Rules.

SHARE OPTION SCHEME

Pursuant to the resolution of all the shareholders of the Company dated 12 June 2008, the Company adopted a share option scheme (the "Main Board Share Option Scheme") to replace the then existing share option scheme.

Details of the share options outstanding and movement during the year ended 31 December 2009 are as follows:

Grantee	Date of grant	Exercise Price (HKD)	As at 01.01.2009	Number of share options Granted	Exercised	Lapsed	As at 31.12.2009
Directors							
Liu Dejian	07.12.2009	4.33	–	1,600,000	–	–	1,600,000
Liu Luyuan	07.12.2009	4.33	–	1,400,000	–	–	1,400,000
Chen Hongzhan	07.12.2009	4.33	–	1,600,000	–	–	1,600,000
Others							
Employees	07.12.2009	4.33	–	2,200,000	–	–	2,200,000
Total			–	6,800,000	–	–	6,800,000

Notes:

1. The closing price of the Company's shares immediately before 7 December 2009, the date of grant of the 2009 options, was HKD4.33.

2. During the year under review, no share options were exercised by any Directors or chief executive of the Company.

3. During the year under review, no share options were cancelled or lapsed.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Main Board Share Option Scheme disclosed above and set out in note 27 of Notes to the Consolidated 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 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.

SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme") on 2 September 2008 (the "Adoption Date") in which selected employees (the "Selected Employee(s)") of the Group are entitled to participate. The purpose of the scheme is to recognise the contributions by certain employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date. The Board shall not grant any further award of shares which would result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 10% of the issued Share capital of the Company from time to time. The maximum number of shares which may be awarded to a Selected Employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

Pursuant to the rules of the Share Award Scheme, the Group has entered into a trust deed with Bank of Communications Trustee Limited (the "Trustee") in respect of the appointment of the Trustee for the purpose of the administration of the Share Award Scheme and holding the awarded shares before they are vested.

As at 31 December 2008, the Board awarded an aggregate amount of approximately HKD16,094,000 (equivalent to approximately RMB14,120,000) for the purchase of shares to a number of Selected Employees. For the year ended 31 December 2009, the Trustee purchased 3,174,000 shares and the total payout, including the related transaction costs, amounted to approximately HKD16,100,000 (equivalent to approximately RMB14,200,000).

SHARE AWARD SCHEME (Cont'd)

Subject to the receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the Selected Employees within the period stipulated in the vesting notice issued by the Trustee to the Selected Employees; and (ii) a confirmation from the Company that all vesting conditions having been fulfilled, the awarded shares will be transferred to the Selected Employees at nil consideration upon vesting. As at 31 December 2009, details of the awarded shares under the Share Award Scheme were as follows:

	Number of shares		
Average price per share (HKD) (note)	**As at 1 January 2009**	**Vested during the year**	**As at 31 December 2009**
5.07	1,210,168	376,832	833,336

Note:

These shares were purchased by the Trustee of the Share Award Scheme at an average price of HKD5.07 per share.

For the year ended 31 December 2009, details of the shares awarded to the Directors under the Share Award Scheme are as follows:

Name of Selected Employee	Position	Awarded Shares	Vesting date
Chao Guowei, Charles	Independent non executive Director	49,255	6 Nov 2009
Lee Kwan Hung	Independent non executive Director	49,255	6 Nov 2009
Liu Sai Keung, Thomas	Independent non executive Director	49,255	6 Nov 2009

These shares were vested to the Selected Employees in recognition of their respective services and contribution to the Group during the year of 2009.

AUDITOR

A resolution will be submitted in the forthcoming AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board
Liu Dejian
Chairman

Hong Kong, 15 April 2010

Corporate Governance Report

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 year, the Company has complied with the principles set out in the Code on Corporate Governance Practices (the "CG Code Provisions") in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established its code of conduct regarding securities transaction by directors, senior management and relevant employees on terms no less exacting than the required standard indicated by the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code during the period under review. In order to ensure strict compliance with the Model Code by all Directors, a refreshment discussion on the detailed guildlines for dealing in the Company's securities has been held by end of 2009.

THE BOARD

The Board is composed of four executive Directors (including the Chairman and the Chief Executive Officer of the Company) and four 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 57 to 60. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relevant relationship to one another.

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 24 June 2008 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 appointment letter or by either party thereto giving to the other not less than three months' prior written notice.

Duties of the Board including delegation to management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the committees and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the audit committee, the remuneration committee, the nomination committee and the share award scheme committee. Further details of these committees are set out in this report.

Duties of the Board include:

(i) ensuring, maintaining and overseeing the internal control systems of the Group;

(ii) setting the objectives of management of the Group;

(iii) monitoring the performance of management of the Group;

(iv) ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and

(v) overseeing the management of NetDragon's relationships with stakeholders, such as, shareholders, customers, the community, interest groups, employees and others who have a legitimate interest in the responsible conduct of the Group's business.

During the year, the Board held 4 meetings and the attendance of each of the Directors at Board and committee meetings held in 2009 is set out below:

Directors	**Full Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Share Award Scheme Committee**
Executive Directors					
Liu Dejian *(Chairman)*	4/4	N/A	N/A	N/A	N/A
Liu Luyuan *(Chief Executive Officer)*	3/4	N/A	N/A	N/A	N/A
Zheng Hui	4/4	N/A	N/A	N/A	N/A
Chen Hongzhan	4/4	N/A	N/A	N/A	N/A
Non executive Director					
Lin Dongliang	4/4	N/A	N/A	N/A	N/A
Independent non executive Directors					
Chao Guowei, Charles	4/4	6/6	1/1	1/1	N/A
Lee Kwan Hung	4/4	6/6	1/1	1/1	N/A
Liu Sai Keung, Thomas	4/4	6/6	1/1	1/1	N/A

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

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 3.10 of the 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 Directors an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. These Directors' independence have been verified.

DIRECTORS' INTEREST IN CONTRACT

With reference to the Structure Contracts entered into between TQ Digital, TQ Online and NetDragon (Fujian), the executive Directors Liu Dejian, Liu Luyuan and Zheng Hui, are interested in an aggregate of 98.86% in NetDragon (Fujian). NetDragon (Shanghai), being a subsidiary of NetDragon (Fujian), is technically an associate of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other hand, including the Structure Contracts and the Other Contracts would technically constitute connected transactions. Details for the Structure Contracts and the Other Contracts are set out in pages 70 to 74 in the section of "Report of the Directors" under the paragraphs of "Structure Contracts".

With reference to the continuing connected transaction entered into between TQ Digital and NetDragon (Fujian), the executive Directors, Zheng Hui and Chen Hongzhan each owned 30% and 30% respectively in Fuzhou Tianliang. With reference to the continuing connected transaction for the Tenancy Agreements entered into between TQ Digital and Fuzhou 851 which is owned as to approximately 46.26% and 26.87% by DJM Holding Ltd., a substantial shareholder of the Company, Liu Dejian, an executive director, respectively. With reference to the continuing connected transaction for the Recreation Centre Agreement entered into between TQ Digital and Fuzhou 851 which is owned as to approximately 46.26% and 26.87% by DJM Holding Ltd., a substantial shareholder of the Company, Liu Dejian, an executive director, respectively.

Details for the continuing connected transactions are set out in pages 75 to 77 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, either directly or indirectly, in any contract of significance of the Company during the year ended 31 December 2009 or as at the end of the year.

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 CG Code Provision and has held six meetings during 2009. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

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

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

The terms of reference of the audit committee are posted on the Company's website. The Group's audited consolidated financial statements for the year ended 31 December 2009 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 the remuneration and other benefits paid by us to our Directors and senior management, and has held one meeting during 2009. 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, as authorised by shareholders at the AGM, 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 on a regular basis, and has held one meeting during 2009.

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 Company established the Management Committee pursuant to the Structure Contracts 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.

SHARE AWARD SCHEME COMMITTEE

In recognition of the contribution of employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group, the Company established a share award scheme committee on 2 September 2008 for the purpose of administration of the Share Award Scheme.

Our share award scheme committee comprises two independent non executive Directors, namely Lee Kwan Hung and Liu Sai Keung, Thomas and two senior management, namely Wu Chak Man and Tam Hon Shan, Celia.

INTERNAL CONTROL

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 engaged an independent external professional firm to conduct 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 for the year under review.

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	1,463
Non-audit services	786
	2,249

The above non-audit services include professional advisory fees relating to the accounting services and internal control review.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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.

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 2009 was approximately HKD2,135.43 million (entired issued share capital: 528,570,860 shares) at closing market price: HKD4.04 per share. The public float is around 33%.

The forthcoming AGM will be held at Vinson Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong in Hong Kong on 28 May 2010 at 3:00 p.m..

Deloitte.
德勤

TO THE MEMBERS OF NETDRAGON WEBSOFT INC.

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of NetDragon Websoft Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 91 to 156, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Revenue	5	**621,836**	595,981
Cost of revenue		**(84,325)**	(68,017)
Gross profit		**537,511**	527,964
Other income and gains	5	**57,807**	58,020
Selling and marketing expenses		**(133,460)**	(103,599)
Administrative expenses		**(163,926)**	(112,673)
Development costs		**(201,461)**	(89,823)
Other expenses		**(1,959)**	(19,555)
Net (loss) gain on derivative financial instruments		**(15,214)**	32,231
Net gain (loss) on financial assets designated as fair value through profit or loss		**18,431**	(30,385)
Share of losses of jointly controlled entities		**(724)**	(276)
Profit before taxation		**97,005**	261,904
Taxation	7	**(10,381)**	(22,635)
Profit for the year	8	**86,624**	239,269
Other comprehensive loss:			
Exchange differences arising on translation of foreign operations		**(784)**	(45,027)
Total comprehensive income for the year		**85,840**	194,242
Profit for the year attributable to:			
– Owners of the Company		**87,108**	239,381
– Minority interests		**(484)**	(112)
		86,624	239,269
Total comprehensive income attributable to:			
– Owners of the Company		**86,324**	194,354
– Minority interests		**(484)**	(112)
		85,840	194,242
		RMB cents	RMB cents
Earnings per share	11		
– Basic		**16.57**	44.49
– Diluted		**16.56**	44.49

Consolidated Statement of Financial Position

As at 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	12	**109,226**	96,160
Prepaid lease payments	13	**41,075**	7,224
Deposit paid for acquisition of property, plant and equipment		**8,895**	7,357
Intangible assets	14	**12,980**	10,754
Interests in jointly controlled entities	15	**—**	224
Available-for-sale investments	16	**4,000**	4,000
Loan receivables	17	**7,313**	6,835
Deferred tax assets	18	**54**	54
		183,543	132,608
Current assets			
Prepaid lease payments	13	**855**	138
Loan receivables	17	**893**	440
Trade receivables	19	**14,128**	9,500
Other receivables, prepayments and deposits		**66,272**	72,490
Held for trading investments	20	**377**	—
Financial assets designated as fair value through profit or loss	21	**—**	311,806
Derivative financial instruments	22	**—**	31,857
Advance to a jointly controlled entity	23	**29,000**	—
Tax recoverable		**20**	108
Bank deposits	24	**551,970**	629,454
Bank balances and cash	24	**705,053**	332,009
		1,368,568	1,387,802
Current liabilities			
Trade payables	25	**285**	219
Other payables and accruals		**67,881**	36,620
Deferred income		**18,189**	16,838
Income tax payable		**9,935**	12,922
		96,290	66,599
Net current assets		**1,272,278**	1,321,203
		1,455,821	1,453,811

Consolidated Statement of Financial Position

As at 31 December 2009

	NOTE	2009 RMB'000	2008 RMB'000
Capital and reserves			
Share capital	26	**39,264**	39,264
Share premium and reserves		**1,417,041**	1,414,547
Equity attributable to owners of the Company		**1,456,305**	1,453,811
Minority interests		**(484)**	—
		1,455,821	1,453,811

The consolidated financial statements on pages 91 to 156 were approved and authorised for issue by the Board of Directors on 15 April 2010 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Equity attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000 (Note 1)	Capital reserve RMB'000 (Note 2)	Statutory reserves RMB'000 (Note 3)	Dividend reserve RMB'000	Treasury share reserve RMB'000 (Note 4)	Employee share-based compensation reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	41,219	1,379,483	8	9,946	61,216	216,093	–	–	(10,680)	71,985	1,769,270	112	1,769,382
Exchange difference on translation of foreign operations	–	–	–	–	–	–	–	–	(45,027)	–	(45,027)	–	(45,027)
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	239,381	239,381	(112)	239,269
Total comprehensive income and expense for the year	–	–	–	–	–	–	–	–	(45,027)	239,381	194,354	(112)	194,242
Repurchase and cancellation of shares	(1,955)	(222,119)	1,955	–	–	–	–	–	–	(1,955)	(224,074)	–	(224,074)
Purchased of shares for unvested shares under the employee's share award scheme	–	–	–	–	–	–	(14,107)	–	–	–	(14,107)	–	(14,107)
Final dividend for 2007 paid	–	–	–	–	–	(216,093)	–	–	–	(9,057)	(225,150)	–	(225,150)
Interim dividend for 2008 paid	–	–	–	–	–	–	–	–	–	(47,496)	(47,496)	–	(47,496)
Final dividend for 2008 proposed	–	–	–	–	–	51,275	–	–	–	(51,275)	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	1,014	–	–	1,014	–	1,014
Awarded shares vested to employees	–	–	–	–	–	–	1,675	(1,014)	–	(661)	–	–	–
Transfer	–	–	–	–	36,476	–	–	–	–	(36,476)	–	–	–
At 31 December 2008	39,264	1,157,364	1,963	9,946	97,692	51,275	(12,432)	–	(55,707)	164,446	1,453,811	–	1,453,811
Exchange difference on translation of foreign operations	–	–	–	–	–	–	–	–	(784)	–	(784)	–	(784)
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	87,108	87,108	(484)	86,624
Total comprehensive income and expense for the year	–	–	–	–	–	–	–	–	(784)	87,108	86,324	(484)	85,840
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	5,660	–	–	5,660	–	5,660
Final dividend for 2008 paid	–	–	–	–	–	(51,275)	–	–	–	–	(51,275)	–	(51,275)
Interim dividend for 2009 paid	–	–	–	–	–	–	–	–	–	(38,208)	(38,208)	–	(38,208)
Final dividend for 2009 proposed	–	–	–	–	–	23,270	–	–	–	(23,270)	–	–	–
Awarded shares vested to employees	–	–	–	–	–	–	1,675	(1,019)	–	(663)	(7)	–	(7)
Transfer	–	–	–	–	16,950	–	–	–	–	(16,950)	–	–	–
At 31 December 2009	39,264	1,157,364	1,963	9,946	114,642	23,270	(10,757)	4,641	(56,491)	172,463	1,456,305	(484)	1,455,821

Notes:

1. The amount represented the nominal value of the shares repurchased by the Company.

2. Capital reserve arose on combining the results and financial positions of the companies of 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) ("NetDragon (Fujian)") and 上海天坤數碼科技有限公司 (Shanghai Tiankun Digital Technology Limited) ("NetDragon (Shanghai)") using the principles of merger accounting.

3. As stipulated by the relevant laws and regulations for enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain statutory reserves. Appropriation to such reserve is made out of profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by its board of directors annually. The statutory reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

4. Treasury share reserve is comprised of the consideration paid for the treasury shares held for the share award scheme, including any attributable incremental costs for the purchase of shares under the share award scheme.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**97,005**	261,904
Adjustments for:		
Share of losses of jointly controlled entities	**724**	276
Net (gain) loss on financial assets designated as fair value through profit or loss	**(18,431)**	30,385
Net loss (gain) on derivative financial instruments	**15,214**	(32,231)
Interest income	**(14,578)**	(24,316)
Net gain on held for trading investments	**(3,113)**	—
Dividends received from available-for-sale investments, unlisted	**—**	(176)
Release of prepaid lease payments	**258**	103
Amortisation of intangible assets	**5,048**	3,378
Depreciation of property, plant and equipment	**49,367**	33,315
Share-based payments expense	**5,660**	1,014
Loss on disposal of property, plant and equipment	**13**	175
Impairment losses on receivables	**295**	1,660
Operating cash flows before movements in working capital	**137,462**	275,487
(Increase) decrease in trade receivables	**(4,923)**	15,780
Decrease (increase) in other receivables, prepayments and deposits	**8,544**	(20,155)
Decrease in held for trading investments	**2,736**	—
Decrease in derivative financial instruments	**16,643**	—
Decrease in amounts due from related companies	**—**	8,832
Increase (decrease) in trade payables	**66**	(281)
Increase in other payables and accruals	**31,261**	7,182
Increase in deferred income	**1,351**	1,514
Decrease in amounts due to related companies	**—**	(76)
Cash generated from operations	**193,140**	288,283
Income tax paid	**(13,280)**	(39,153)
NET CASH FROM OPERATING ACTIVITIES	**179,860**	249,130

Consolidated Statement of Cash flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES		
Interest received	**12,252**	12,336
Dividends received from available-for-sale investments, unlisted	**—**	176
Acquisition of interests in jointly controlled entities	**(500)**	(500)
Proceeds on disposal of property, plant and equipment	**5**	246
Decrease (increase) in bank deposits	**77,484**	(579,454)
Advance of loan receivables	**(1,800)**	(7,450)
Repayment of loan receivables	**869**	175
Advance to a jointly controlled entity	**(29,000)**	—
Purchase of prepaid lease payments	**(34,826)**	(6,291)
Purchase of property, plant and equipment	**(55,097)**	(68,557)
Purchase of intangible assets	**(7,289)**	(14,258)
Deposit paid for acquisition of property, plant and equipment	**(8,895)**	(7,357)
Proceeds on disposal (purchase) of financial assets designated as fair value through profit or loss	**330,237**	(340,818)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**283,440**	(1,011,752)
FINANCING ACTIVITIES		
Dividends paid	**(89,483)**	(263,589)
Payment on repurchase of shares	**—**	(224,074)
Payment on purchase of treasury shares	**—**	(14,107)
NET CASH USED IN FINANCING ACTIVITIES	**(89,483)**	(501,770)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**373,817**	(1,264,392)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**332,009**	1,651,380
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(773)**	(54,979)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**705,053**	332,009

1. GENERAL

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability. The Company's shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 November 2007. On 12 June 2008, an extraordinary general meeting (the "EGM") was held to approve, among others, the Company's voluntary withdrawal of listing on the GEM and proposed listing on the Main Board of the Stock Exchange by way of introduction. The proposed withdrawal was passed by the shareholders at the EGM. The shares of the Company have been listed on the Main Board of the Stock Exchange since 24 June 2008. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 2209, 22nd Floor, Shun Tak Centre, West Tower, 200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are online game development, including game design, programming and graphics and online game operation.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded Derivatives

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

HK(IFRIC) - INT 13	Customer Loyalty Programmes
HK(IFRIC) - INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) - INT 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) - INT 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be prepared on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment revenue, segment profit or loss and segment assets, except that the Group's liabilities have not been reported segmentally (see note 6). Accordingly, no prior period adjustment has been recognised.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised HKFRSs affecting presentation and disclosure only

Improving disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures) (Cont'd)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value for which the balances are not significant. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) - INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) - INT 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

* IFRIC represents the International Financial Reporting Interpretations Committee

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

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

In addition, as part of Improvement to HKFRSs (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasehold land was required to be classified as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset life with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special propose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of 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, to the extent of the continuation of the controlling party's interest.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Merger accounting for business combination involving entities under common control (Cont'd)

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented 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.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Investments in jointly controlled entities

Joint venture arrangement that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of jointly controlled entities equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with a jointly controlled entity of the Group, profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivables for services provided in the normal course of business.

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 players 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 any discounts.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimate future cash receipts throughout the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into accounts of their estimated residue value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and released over the lease term on a straight-line basis.

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi ("RMB")) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transactions cost directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Financial assets at fair value through profit or loss (Cont'd)

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivables, trade receivables, other receivables, advance to a jointly controlled entity, bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

Financial liabilities

Financial liabilities including trade payables, other payables and accruals are subsequently measured at amortised cost, using the effective interest method for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity (Cont'd)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payment transactions

Equity-settled share-based payment transactions

Share option scheme

The fair value of services rendered determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

Share award scheme

The Group operates a share award scheme which allows it to grant shares to selected employees. For the shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity (employee share-based compensation reserve).

At the time when the awarded shares are vested, the amount previously recognised in treasury share reserve and the amount of the employee share-based compensation reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible assets arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any).

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are charged as an expense when employees have rendered services entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policy

The following is the critical judgement, apart from those involving estimation (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Accounting for companies governed under contractual arrangements as subsidiaries

The Company and its subsidiaries do not hold any equity interests in NetDragon (Fujian) and NetDragon (Shanghai). Nevertheless, under the contractual agreements entered into between the Group, NetDragon (Fujian) and the registered owners of NetDragon (Fujian), management determines that the Group has the power to govern the financial and operating policies of NetDragon (Fujian) and NetDragon (Shanghai) so as to obtain benefits from their activities. As such, NetDragon (Fujian) and NetDragon (Shanghai) are accounted for as subsidiaries of the Group for accounting purposes.

Key source of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key source of estimation uncertainty (Cont'd)

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 sales 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 sales channels and the income received via different distribution and sales 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.

Impairment of receivables

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and the allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at an effective interest rate computed at initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE, OTHER INCOME AND GAINS

	2009 RMB'000	2008 RMB'000
Revenue		
Online game revenue	**621,836**	595,981
Other income and gains		
Advertising income	**1,522**	7,865
Business tax refunded (Note a)	**27,099**	—
Net gain on held for trading investments	**3,113**	—
Dividend income from available-for-sale investments, unlisted	**—**	176
Government grants (Note b)	**10,039**	24,608
Interest income	**14,578**	24,316
Others	**1,456**	1,055
	57,807	58,020

Notes:

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

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

6. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. Under HKAS 14, the Directors considered that there was only one business segment, being online game development and operation and marketing of those online games. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment revenue, profit or loss and assets.

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the executive directors, being the CODM of the Group. There is only one business component in the internal reporting to the CODM.

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

	2009	2008
	RMB'000	RMB'000
Segment revenue	**621,836**	595,981
Segment profit	**137,006**	285,606
Unallocated corporate income	**20,669**	33,704
Net (loss) gain on derivative financial instruments	**(15,214)**	32,231
Net gain (loss) on financial assets designated as fair value through profit or loss	**18,431**	(30,385)
Unallocated corporate expenses	**(63,163)**	(58,976)
Share of losses of jointly controlled entities	**(724)**	(276)
Profit before taxation	**97,005**	261,904

6. SEGMENT INFORMATION (Cont'd)

The accounting policies of the reportable segment are the same as the Group's accounting policies described in note 3. The executive directors assess segment profit or loss using a measure of operating profit whereby certain items are not included in arriving at the segment result of the reportable segment (including share-based payments expense, share of losses of jointly controlled entities, net (loss) gain on derivative financial instruments, net gain (loss) on financial assets designated as fair value through profit or loss, income tax expenses, unallocated corporate income and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	2009 RMB'000	2008 RMB'000
Reportable segment assets	**1,093,510**	1,127,099
Unallocated	**458,601**	393,311
	1,552,111	1,520,410

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

6. SEGMENT INFORMATION (Cont'd)

Geographical information

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

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

	2009	2008
	RMB'000	RMB'000
PRC	**483,919**	446,350
United States of America ("USA")	**131,982**	135,520
Unallocated	**5,935**	14,111
	621,836	595,981

The Group's non-current assets by geographical location of assets are detailed below:

	2009	2008
	RMB'000	RMB'000
PRC	**131,970**	110,724
Hong Kong	**40,168**	10,957
USA	**38**	38
	172,176	121,719

No external customers of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2009 and 2008.

7. TAXATION

	2009 RMB'000	2008 RMB'000
PRC Enterprise Income Tax:		
Current year	**10,090**	31,859
Overprovision in prior years	**—**	(9,666)
	10,090	22,193
Taxation in other jurisdiction:		
Current year	**291**	442
	10,381	22,635

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

PRC Enterprise Income Tax ("EIT") is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

TQ Digital is a wholly foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 29 July 2005. Pursuant to the Circular on Some Preferential Policies for the EIT (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 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 for the years ended 31 December 2009 and 2008.

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

NetDragon (Shanghai) was approved to be a hi-tech enterprise in 2009 and has obtained the approval to enjoy 50% reduction in EIT rate for the period from 1 January 2009 to 31 December 2011. Thus, NetDragon (Shanghai) was entitled to pay EIT at the reduced tax rate of 12.5% for the year ended 31 December 2009 (2008: 25%).

Pursuant to the relevant laws and regulations in the PRC, TQ Online is exempted from PRC income tax for two years starting from its first profit making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the financial statements of TQ Online as TQ Online was exempted from PRC income tax during the years ended 31 December 2009 and 2008.

7. TAXATION (Cont'd)

For the year ended 31 December 2009, the USA income tax rates applicable to NetDragon Websoft Inc. are 34% (2008: 34%) for federal tax and 8.84% (2008: 8.84%) for state income tax.

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

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

	2009 RMB'000	2008 RMB'000
Profit before taxation	**97,005**	261,904
Tax at the applicable tax rate of 25% (2008: 10.24%) (Note a)	**24,251**	26,821
Tax effect of share of losses of jointly controlled entities	**181**	69
Tax effect of income not taxable for tax purpose	**(308)**	(10,344)
Tax effect of expenses not deductible for tax purpose	**8,309**	31,977
Tax effect of tax losses not recognised	**20,439**	10,296
Utilisation of tax losses previously not recognised	**(210)**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**74**	—
Additional tax benefit on research and development expenses (Note b)	**(25,645)**	(3,668)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	**(16,642)**	(22,837)
Overprovision in prior years	**—**	(9,666)
Others	**(68)**	(13)
Tax charge for the year	**10,381**	22,635

Notes:

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiary in Fujian Province in the PRC which constitute the substantial part of the Group's operations for the year ended 31 December 2009. For the year ended 31 December 2008, the applicable tax rate represented the weighted average tax rate of subsidiaries with different applicable tax rates on the basis of the relative amounts of profit before taxation and the relevant statutory rates. The change of the applicable tax rate is mainly due to most of the amounts of profit before taxation was generated from the subsidiary in Fujian Province during the year and therefore, the applicable tax rate is 25%.

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

Details of deferred taxation are set out in note 18.

8. PROFIT FOR THE YEAR

	2009 RMB'000	2008 RMB'000
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,463**	1,358
Amortisation of intangible assets (included in cost of revenue)	**4,002**	3,331
Amortisation of intangible assets (included in other expenses)	**1,046**	47
Release of prepaid lease payments	**258**	103
Depreciation of property, plant and equipment	**49,367**	33,315
Impairment losses on receivables	**295**	1,660
Operating lease rentals in respect of:		
- rented premises	**14,624**	2,845
- computer equipment	**47,791**	38,215
Staff costs:		
Directors' emoluments	**5,111**	2,057
Other staff costs		
Salaries and other benefits	**246,030**	123,776
Contributions to retirement benefits schemes	**14,571**	6,846
Share-based payments expense	**2,466**	615
	268,178	133,294
Net foreign exchange loss	**1,302**	13,111
Loss on disposal of property, plant and equipment	**13**	175

9. DIRECTORS' AND EMPOLYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the eight (2008: nine) directors were as follows:

	2009				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	—	455	—	755	1,210
Mr. Liu Luyuan	—	445	11	661	1,117
Mr. Zheng Hui	—	121	11	—	132
Mr. Chen Hongzhan	—	113	11	755	879
Non-executive director					
Mr. Lin Dongliang	—	—	—	—	—
Independent non-executive directors					
Mr. Chao Guowei, Charles	250	—	—	341	591
Mr. Lee Kwan Hung	250	—	—	341	591
Mr. Liu Sai Keung, Thomas	250	—	—	341	591
	750	1,134	33	3,194	5,111

9. DIRECTORS' AND EMPOLYEES' EMOLUMENTS (Cont'd)

Directors' emoluments (Cont'd)

	2008				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	—	455	—	—	455
Mr. Liu Luyuan	—	453	10	—	463
Mr. Zheng Hui	—	129	9	—	138
Mr. Chen Hongzhan	—	171	11	—	182
Non-executive directors					
Mr. Lin Dongliang	—	—	—	—	—
Mr. Zhu Xinkun	—	—	—	—	—
Independent non-executive directors					
Mr. Chao Guowei, Charles	180	—	—	133	313
Mr. Lee Kwan Hung	240	—	—	133	373
Mr. Liu Sai Keung, Thomas	—	—	—	133	133
	420	1,208	30	399	2,057

9. DIRECTORS' AND EMPOLYEES' EMOLUMENTS (Cont'd)

Employees' emoluments

The emoluments of the five highest paid individuals included two (2008: nil) executive directors of the Company, whose emoluments are included in the disclosures above. The emoluments of the remaining three individuals (2008: five) were as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	2,743	3,569
Contribution to retirement benefits schemes	26	—
Share-based payments expense	1,618	615
	4,387	4,184

Their emoluments were within the following bands:

	2009 Number of employees	2008 Number of employees
Nil to Hong Kong dollars ("HKD")1,000,000	—	4
HKD1,000,001 to HKD1,500,000	1	1
HKD1,500,001 to HKD2,000,000	2	—
	3	5

During the year ended 31 December 2009, no emoluments have been paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during the year ended 31 December 2009 (2008: nil).

10. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Dividends recognised as distribution during the year:		
2009 Interim - HKD0.082 (2008: 2008 Interim dividend of HKD0.1) per share	**38,208**	47,496
2008 Final - HKD0.11 (2008: 2007 Final dividend of HKD0.43) per share	**51,275**	216,093
	89,483	263,589

The final dividend of HKD0.05 (2008: HKD0.11) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounting to approximately RMB23,270,000 (2008: RMB51,275,000).

11. EARNINGS PER SHARE

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

	2009 RMB'000	2008 RMB'000
Earnings for the purposes of basic and diluted earnings per share	**87,108**	239,381

11. EARNINGS PER SHARE (Cont'd)

	Number of shares	
	2009	2008
	'000	'000
Weighted average number of shares for the purpose of basic earnings per share	**525,791**	538,082
Effect of dilutive potential shares from the Company's share option scheme	**36**	—
Weighted average number of shares for the purpose of calculating diluted earnings per share	**525,827**	538,082

The weighted average number of shares shown above has been arrived at after deducting the weighted average effect of 2,420,336 shares (2008: 2,797,168 shares) held by the Company's share award scheme as set out in note 27.

The presentation of diluted earnings per share for the years ended 31 December 2009 and 2008 have not taken into the effect of potential shares under share award scheme because the exercise price of the Company's shares under share award scheme was higher than the average market price for shares for both years.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Computer and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2008	1,505	2,054	70,527	5,253	—	79,339
Exchange adjustments	—	(2)	(36)	—	—	(38)
Additions	2,081	3,535	53,697	1,727	7,517	68,557
Disposals	—	(312)	(40)	(268)	—	(620)
At 31 December 2008	3,586	5,275	124,148	6,712	7,517	147,238
Exchange adjustments	(2)	(1)	(2)	—	—	(5)
Additions	4,492	10,926	38,292	1,660	7,084	62,454
Reclassification	—	7,517	—	—	(7,517)	—
Disposals	—	—	(268)	—	—	(268)
At 31 December 2009	8,076	23,717	162,170	8,372	7,084	209,419
DEPRECIATION						
At 1 January 2008	14	1,110	16,165	706	—	17,995
Exchange adjustments	—	—	(33)	—	—	(33)
Provided for the year	304	1,315	30,213	1,483	—	33,315
Eliminated on disposals	—	(73)	(24)	(102)	—	(199)
At 31 December 2008	318	2,352	46,321	2,087	—	51,078
Exchange adjustments	—	—	(2)	—	—	(2)
Provided for the year	239	5,533	41,861	1,734	—	49,367
Eliminated on disposals	—	—	(250)	—	—	(250)
At 31 December 2009	557	7,885	87,930	3,821	—	100,193
CARRYING VALUES						
At 31 December 2009	7,519	15,832	74,240	4,551	7,084	109,226
At 31 December 2008	3,268	2,923	77,827	4,625	7,517	96,160

12. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	4.75%
Leasehold improvements	Over the shorter of the terms of the leases, or 20% - 33.33%
Computer and office equipment	19% - 31.67%
Motor vehicles	19% - 23.75%

The Group's buildings are situated in Hong Kong and the PRC which are held under long lease and medium-term lease, respectively.

13. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
Analysed for reporting purposes as:		
Current assets	**855**	138
Non-current assets	**41,075**	7,224
	41,930	7,362

	2009 RMB'000	2008 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong - long lease	**28,785**	—
Leasehold land in the PRC - medium-term lease	**13,145**	7,362
	41,930	7,362

14. INTANGIBLE ASSETS

	Film rights	Trademark	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2008	—	—	—
Exchange adjustments	—	(165)	(165)
Additions	—	14,258	14,258
At 31 December 2008	—	14,093	14,093
Exchange adjustments	—	(24)	(24)
Additions	5,010	2,279	7,289
At 31 December 2009	5,010	16,348	21,358
AMORTISATION			
At 1 January 2008	—	—	—
Exchange adjustments	—	(39)	(39)
Provide for the year	—	3,378	3,378
At 31 December 2008	—	3,339	3,339
Exchange adjustments	—	(9)	(9)
Provide for the year	974	4,074	5,048
At 31 December 2009	974	7,404	8,378
CARRYING VALUES			
At 31 December 2009	4,036	8,944	12,980
At 31 December 2008	—	10,754	10,754

The Group's film rights and trademark were acquired from third parties. The above film rights and trademark are amortised on a straight-line basis at the following rates per annum:

Film rights	50%
Trademark	20% - 33.33%

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2009	2008
	RMB'000	RMB'000
Unlisted investments outside Hong Kong:		
Cost of investments	**1,000**	500
Share of post-acquisition losses	**(1,000)**	(276)
	–	224
Share of net assets - unlisted	**–**	224

As at 31 December 2009, the Group had interests in the following jointly controlled entities:

Name of entities	**Percentage of registered capital directly held by the Group**	**Place of establishment/ operation**	**Registered capital**	**Principal activity**
上海晶茂文化傳播有限公司	50%	PRC	RMB1,000,000	Provision for film marketing and research services
上海合進數據信息諮詢有限公司	50%	PRC	RMB1,000,000	Provision for data collection services of film advertisement

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

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

	2009	2008
	RMB'000	RMB'000
Total assets	**26,662**	850
Total liabilities	**(47,334)**	(401)
Net (liabilities) assets	**(20,672)**	449
Group's share of net (liabilities) assets of jointly controlled entities	**—**	224
Revenue	**36,460**	—
Loss for the year	**(22,121)**	(552)

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

	2009	2008
	RMB'000	RMB'000
Unrecognised share of losses of jointly controlled entities for the year	**10,336**	—
Accumulated unrecognised share of losses of jointly controlled entities	**10,336**	—

16. AVAILABLE-FOR-SALE INVESTMENTS

	2009 & 2008 RMB'000
Unlisted equity securities in the PRC	4,000

The above unlisted equity investments represent 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.

The available-for-sale investments are stated at cost less impairment at the end of the reporting period because the directors are of the opinion that its fair value cannot be measured reliably.

17. LOAN RECEIVABLES

	2009 RMB'000	2008 RMB'000
Fixed-rate loan receivables	**8,206**	5,675
Variable-rate loan receivables	**—**	1,600
	8,206	7,275
Analysed as:		
Current	**893**	440
Non-current	**7,313**	6,835
	8,206	7,275

The effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	2009	2008
Effective interest rate:		
Fixed-rate loan receivables (per annum)	**4.896%**	5.48%
Variable-rate loan receivables (per annum)	**N/A**	15%

Loan receivables represent loans to key management and senior staff. Loan receivables are not past due or impaired at the end of reporting period. The Group does not hold any collateral over this balance. The loans are either repayable by instalments until 2013 or 2014 or repayable in 2013 or 2014.

18. DEFERRED TAX ASSETS

The following are the deferred tax assets recognised by the Group and the movements thereon during the current and prior years:

	Development costs
	RMB'000
At 1 January 2008, 31 December 2008 and 31 December 2009	54

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB49,084,000 (2008: RMB32,829,000). No deferred tax liability has been recognised because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The Group also has not recognised deferred tax assets arising from tax losses amounting to approximately RMB190,535,000 (2008: RMB108,554,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. All tax losses can be carried forward indefinitely.

19. TRADE RECEIVABLES

The Group allows a credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period.

	2009	2008
	RMB'000	RMB'000
0 - 30 days	**11,513**	6,976
31 - 60 days	**1,949**	2,197
61 - 90 days	**101**	56
Over 90 days	**565**	271
	14,128	9,500

19. TRADE RECEIVABLES (Cont'd)

Before accepting any new customer, the Group uses an internal credit assessment policy to assess the potential customer's credit quality and define credit limits by customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB2,615,000 (2008: RMB2,524,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2009	2008
	RMB'000	RMB'000
31 - 60 days	**1,949**	2,197
61 - 90 days	**101**	56
Over 90 days	**565**	271
Total	**2,615**	2,524

Movement in the allowance for doubtful debts

	2009	2008
	RMB'000	RMB'000
At beginning of year	**—**	—
Impairment losses recognised on receivables	**295**	1,660
Amounts written off as uncollectible	**—**	(1,660)
At end of year	**295**	—

Included in the allowance for doubtful debts are individually impaired trade receivables within an aggregate balance of RMB295,000 (2008: nil) of which the debtors have been in dispute with the Group.

20. HELD FOR TRADING INVESTMENTS

	2009 RMB'000	2008 RMB'000
Equity securities listed in the PRC	**377**	—

The fair value of the above investments was based on quoted market bid prices of the listed securities on the Shenzhen Stock Exchange.

21. FINANCIAL ASSETS DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS

	2009 RMB'000	2008 RMB'000
Foreign currency notes - unlisted	**—**	311,806

As at 31 December 2008, the Group invested in two debt instruments which included United States dollars ("USD") 30,000,000 in 1-year USD denominated consecutive digital note ("USD Note") and Australian dollars ("AUD") 21,000,000 in 1-year default AUD denominated credit-linked note ("AUD Note"). The principal of the USD Note is 100% recoverable at maturity. The return of the USD Note is calculated based on the exchange rates of USD against RMB on monthly observation dates as specified in the term sheet of the USD Note, and is receivable at maturity date. The principal of the AUD Note is 100% recoverable at maturity, with the redemption and extension clauses as specified in the term sheet of the AUD Note. The return of the AUD Note is 8.3% per annum, and is receivable at maturity date or redemption date or extension date, as appropriate. Both the USD Note and the AUD Note have been designated as financial assets at fair value through profit or loss by the management in their initial recognition.

The fair value of the USD Note and AUD Note were determined by Asset Appraisal Limited, a firm of professional valuers using discounted cash flow method as at 31 December 2008.

During the year, both the USD Note and the AUD Note were matured with changes in fair value of derivative financial instruments of approximately RMB18,431,000 (2008: RMB30,385,000) being recognised in profit or loss.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2009 RMB'000	2008 RMB'000
Foreign currency forward contract	–	31,857

As at 31 December 2008, the Group entered into a 1-year foreign currency forward contract in respect of USD against AUD. The major terms of the foreign currency forward contract at the end of the reporting record are as follows:

Notional amount	**Date of maturity**	**Forward contract rate**
One contract to buy USD in the amount equivalents to AUD21,000,000	19 June 2009	AUD1=USD0.9188

The Group uses forward currency contracts to reduce its risks associated with foreign currency fluctuations. The foreign currency forward contract was not designated as hedging instrument. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The fair value of forward contracts is determined based on quoted forward exchange rates matching maturities of the contracts.

During the year, the forward contract was matured with changes in fair value of derivative financial instruments of approximately RMB15,214,000 (2008: RMB32,231,000) was recognised in profit or loss.

23. ADVANCE TO A JOINTLY CONTROLLED ENTITY

The amount is unsecured and non-interest bearing. The amount of RMB3,000,000, RMB8,000,000 and RMB18,000,000 are repayable on 28 January 2010, 31 January 2010 and 19 March 2010 respectively.

24. BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and bank deposits carry interest at prevailing banking deposit rates which ranges from 0.1% to 2.25% (2008: 0.1% to 4.6%) per annum.

Included in bank balances and cash are the following amounts denominated in currency other than the functional currency of the respective group entities to which they relate:

	2009	2008
	RMB'000	RMB'000
HKD	**35,873**	22,540
USD	**489,719**	60,878

25. TRADE PAYABLES

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

	2009	2008
	RMB'000	RMB'000
0 - 90 days	**268**	185
91 - 180 days	**6**	24
181 - 365 days	**—**	10
Over 365 days	**11**	—
	285	219

26. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2008, 31 December 2008 and 31 December 2009	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2008	556,091,360	5,560,914	41,219
Repurchase and cancellation of shares (Note)	(27,520,500)	(275,205)	(1,955)
At 31 December 2008, 1 January 2009 and 31 December 2009	528,570,860	5,285,709	39,264

Note: For the year ended 31 December 2008, the Company repurchased 27,520,500 of its own shares through the purchases on the Stock Exchange. The shares had been cancelled upon being purchased. The amount paid for the repurchase of shares was approximately RMB224,074,000 which had been deducted from the shareholders' equity.

At 31 December 2009, 2,420,336 (2008: 2,797,168) issued shares of the Company with an aggregate nominal value of approximately RMB10,757,000 (2008: RMB12,432,000) were held by the Company's share award scheme (see note on share award scheme below).

27. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 6,800,000 (31 December 2008: Nil), representing 1.29% (31 December 2008: Nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, 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 HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Options granted must be taken up within 28 days from the date of the offer, upon payment of a nominal consideration of HKD1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of 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.

For the year ended 31 December 2008, no share options had been granted since the adoption of the Scheme and the Company had no share options outstanding at 31 December 2008.

27. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

Details of specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	No. of share option
7 December 2009	Upon the granted date	7 December 2009 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2010	7 December 2010 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2011	7 December 2011 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2012	7 December 2012 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2013	7 December 2013 - 6 December 2019	1,360,000
			6,800,000

The following table discloses movements of the Company's share options held by the directors and employees during the year:

Option type	Date of grant	Exercise price	Granted and outstanding at 31 December 2009
		HKD	
Directors	7 December 2009	4.33	4,600,000
Employees	7 December 2009	4.33	2,200,000
			6,800,000
Exercisable at the end of the year			1,360,000

During the year, the options were granted on 7 December 2009. The estimated fair value of the options granted on that date was approximately RMB14,120,000.

27. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(i) Equity-settled share option scheme (Cont'd)

At 31 December 2009, these fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD4.33
Exercise price	HKD4.33
Risk-free interest rate	1.86%
Expected option life	6 years
Expected volatility	65.07%
Expected dividend yield	1.15%

Expected volatility was determined by using the historical volatility of the Company's comparable companies' share price over 6 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately RMB3,211,000 for the year ended 31 December 2009 (2008: nil) in relation to share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair values of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(ii) Share award scheme

Pursuant to a circular to shareholders of the Company dated 3 September 2008, the Company introduced a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

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

The aggregate number of the Awards is not permitted to exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

27. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme (Cont'd)

The eligibility of employees to participate in the Share Award Scheme and number of shares which are the subject of each Award at each date of grant to a selected employee in accordance with the Share Award Scheme shall be determined at the absolute discretion of the committee, which comprised the directors of the Company duly appointed by the board of directors to administer the Share Award Scheme (the "Committee"), which shall take into consideration various factors including the general financial condition of the Group, the rank and performance of the relevant employee and such other general criteria as the Committee may consider appropriate as well as other limitations set forth under the Rules Governing the Listing of Securities on the Stock Exchange and these rules of the Share Award Scheme.

In determining the number of shares to be awarded each year the Committee shall have reference to the financial performance of the Group as reflected in the profit before taxation of the financial year.

The grant of the Award to the selected employee shall be accepted by the selected employee within 28 days from the date of offer. The selected employee may accept or refuse the whole but not part of a grant of the Award. If the grant of the Award is not accepted by the selected employee within 28 days from the date of offer, the offer shall upon the expiry of the 28 days period automatically lapse and shall be null and void.

Performance conditions (the "Performance Conditions") refers to the condition or conditions imposed by the Company on the selected employee's employment with the Company which must be fulfilled or satisfied by the selected employee prior to his eligibility for the Award. Performance period refers to the period of a participant employment with the Group which is used to assess the selected employee's work performance for the purpose of determining the grant of the selected employee's award.

The current Performance Condition proposed by the Committee is that shares will only be vested to the employees each year in consideration of their completed services rendered for that year. Each employee needs to render the full year service in order to entitle the shares vested in each year.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB2,449,000 for the year ended 31 December 2009 (2008: RMB1,014,000) in relation to share award.

27. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme (Cont'd)

Movements in the share awards granted during the year ended 31 December 2009 are as follows:

Name of category of participant	Date of grant	Outstanding as at 1 January 2009	Aggregate Awards vested and released during the year	Outstanding as at 31 December 2009
Independent non-executive directors:				
Mr. Chao Guowei, Charles	15 October 2008	147,764	(49,255)	98,509
Mr. Lee Kwan Hung	15 October 2008	147,764	(49,255)	98,509
Mr. Liu Sai Keung, Thomas	15 October 2008	147,764	(49,255)	98,509
Other employees	15 October 2008	766,876	(229,067)	537,809
		1,210,168	(376,832)	833,336

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

27. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme (Cont'd)

The following table discloses movement of Company's share award held by employees and directors during prior year:

Name of category of participant	Date of grant	Outstanding as at 1 January 2008	Aggregate Awards vested and released during the year	Outstanding as at 31 December 2008
Independent non-executive directors:				
Mr. Chao Guowei, Charles	15 October 2008	197,019	(49,255)	147,764
Mr. Lee Kwan Hung	15 October 2008	197,019	(49,255)	147,764
Mr. Liu Sai Keung, Thomas	15 October 2008	197,019	(49,255)	147,764
Other employees	15 October 2008	995,943	(229,067)	766,876
		1,587,000	(376,832)	1,210,168

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. The Group will balance its overall capital structure through the payment of dividends as well as issue new shares or return capital to shareholders.

29. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,341,785	1,002,862
Financial assets designated as fair value through profit or loss	—	311,806
Held for trading investments	377	—
Available-for-sale investments	4,000	4,000
Derivative financial instruments	—	31,857
Financial liabilities		
Amortised cost	65,169	33,664

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held for trading investments, financial assets designated as fair value through profit or loss, advance to a jointly controlled entity, derivative financial instruments, loan receivables, trade receivables, other receivables, bank deposits, bank balances and cash, trade payables, other payables and accruals. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. Financial assets designated as fair value through profit or loss and derivative financial instruments were matured in 2009, other than those financial instruments, there has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

29. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk

(i) Currency risk

The Group operates mainly in the PRC. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB. However, the Group also has operations in Hong Kong and the USA and the business transactions conducted there during the year were mainly denominated and settled in HKD and USD respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner.

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**91,917**	30,082	**6,523**	3,886
USD	**500,398**	415,813	**1,309**	1,311

29. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD or USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number below indicates a decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 5% against relevant foreign currencies. For a 5% weakening of the functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit for the year, and the amounts below would be positive.

	2009	2008
	RMB'000	RMB'000
Post-tax profit for the year		
HKD	**(4,270)**	(1,310)
USD	**(24,954)**	(20,725)

A 5% increase and decrease in RMB against HKD or USD do not have a material impact on the other comprehensive income of the Group.

29. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(ii) Interest rate risk

The interest income is derived from the Group's bank deposits that carry interest at the respective banking deposit rate of the banks located in PRC and loan receivables.

The Group is exposed to fair value interest rate risk in relation to loan receivables (set out in note 17). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The cash flow interest rate risk relates primary to the Group's loan receivables (set out in note 17) at variable rates and bank deposits (set out in note 24) carried at prevailing banking deposit rates. It is the Group's policy to keep its loan receivables at floating rate of interests so as to minimise the fair value interest rate risk. The Group's bank deposits are short-term in nature and the exposure of the interest rate risk for loan receivables and bank deposits are considered minimal and no sensitivity to interest rate risk is presented.

Credit risk

As at 31 December 2009, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings and there is no significant concentration of credit risk.

The Group has no significant concentration of credit risk on trade and other receivables with exposure spread over a number of counterparties and customers.

29. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's financial liabilities (including trade and other payables and accruals) will be settled within 12 months from the end of the reporting period. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

Fair value

The fair values of the Group's financial assets and financial liabilities are determined as follows:

- the fair values of financial assets (except for derivative financial instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input; and
- the fair value of foreign currency forward contracts are determined using quoted forward exchange rates matching maturities of the contracts.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

30. RETIREMENT AND BENEFITS PLANS

Defined contribution plan

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or HKD1,000 per person to the scheme, whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2009 made by the Group amounted to approximately RMB14,604,000 (2008: RMB6,876,000).

31. RELATED PARTY TRANSACTIONS

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

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

Name of and relationship with related parties

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

31. RELATED PARTY TRANSACTIONS (Cont'd)

Nature of transactions

	2009 RMB'000	2008 RMB'000
Rentals charges by Fuzhou 851	**2,500**	270
Service fee at recreation centre paid to Fuzhou 851	**4,083**	—
After-sales service fee paid to Fuzhou Tianliang	**3,212**	1,831
Technical service fee paid to Fuzhou Tianliang	**3,212**	1,831
Interest received on loan advanced to key management	**34**	18

In addition, included in loan receivables at 31 December 2009 was loan advanced to key management of approximately RMB700,000 (2008: RMB700,000).

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and other short-term employee benefits	**3,278**	2,714
Contribution to retirement benefits schemes	**69**	67
Share-based payments expense	**4,640**	214
	7,987	2,995

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

32. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2009 RMB'000	2008 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**13,832**	1,283

33. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**19,486**	9,194
In the second to fifth years inclusive	**17,025**	5,598
Over five years	**14,041**	—
	50,552	14,792

Operating lease payments represent rentals payable by the Group for certain of its office premises and computer equipment. Leases are negotiated for an average term of 5 years for office premises and 1 year for computer equipment. Rentals are fixed over the respective leases.

34. EVENT AFTER THE REPORTING PERIOD

At 31 December 2009, the Group has paid a deposit of approximately RMB8,895,000 for the acquisition of land use rights in Fuzhou, the PRC. On 26 February 2010, the Group has successfully bid for a parcel of land use rights with the contract sum of amounting to RMB33,208,000.

35. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up share/ registered capital	Proportion of registered capital /issued share capital/equity interests and voting power held by the Company directly %	indirectly %	Principal activities
NetDragon Websoft Inc.	BVI	USD222,203.93	100	—	Investment holding
NetDragon (Fujian)*	PRC	RMB10,000,000.00	—	—	Operation of online games
TQ Digital #	PRC	RMB345,000,000.00	—	100	Development of online games and licensing and servicing of the developed games
NetDragon (Shanghai)*	PRC	RMB1,000,000.00	—	—	Provision of support services to the Group
NetDragon Websoft Inc.	USA	USD600,000.00	—	100	Provision of support services to the Group
NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司)	Hong Kong	HKD1.00	—	100	Licensing and servicing of the developed games and provision for support services to the Group
Glory More Limited (展凱有限公司)	Hong Kong	HKD1.00	—	100	Investment holding
TQ Online #	PRC	RMB50,000,000.00	—	100	Development of online games and licensing and servicing of developed games
福州網龍天像科技有限公司# (Fujian NetDragon TianXiang Technology Inc.)	PRC	RMB50,000,000.00	—	100	Investment holding

35. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

* The Group's control over, and beneficial interest in the equity of, these entities exist by virtue of certain contractual arrangements involving these entities, which are established as limited liability companies under PRC law. The Group does not hold ownership interest in the registered capital of these subsidiaries. However, under the contractual agreements entered into among the entities, the owners of the registered capital of these entities and the Group, the Group controls these entities by way of controlling all voting rights in shareholders' meetings of these entities and governing their financial and operating policies. Under the contractual arrangements, management committees are established to oversee the businesses and operations of these entities in order to ensure and facilitate the implementation of the contractual arrangements. The management committees shall comprise of members, all of whom have to be directors of TQ Digital, in order that the decision-making rights and the operating and financing activities of these entities are ultimately controlled by the Company. The Company is also entitled to substantially all of the operating profits and residual benefits by charging service fee equal to net profit generated by these entities under the contractual arrangements. In addition, the owners of the registered capital of these entities have irrecoverably authorised TQ Digital to exercise all their voting rights in NetDragon (Fujian), including the appointment and removal of the directors of these entities. As a result, these entities are regarded as subsidiaries under the control of the Group.

\# Wholly foreign owned enterprise.

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.