2010 Interim Report

NETDRAGON WEBSOFT INC.

網龍網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 777

CONTENTS

(1) OPERATION INFORMATION

The following table sets out the breakdown of peak concurrent users (the "PCU") and average concurrent users (the "ACU") for the online games of NetDragon Websoft Inc. ("NetDragon" or the "Company"), together with its subsidiaries (collectively referred to as the "Group") for periods indicated below *(Note)*:

	For the three months ended				
	30 June 2010	31 March 2010	31 December 2009	30 September 2009	30 June 2009
PCU	**449,000**	451,000	492,000	519,000	632,000
ACU	**217,000**	230,000	253,000	273,000	310,000

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

The PCU for online games was approximately 449,000 for the three months ended 30 June 2010, representing a decrease of approximately 0.4% from the three months ended 31 March 2010 and representing a decrease of approximately 29.0% from the three months ended 30 June 2009.

We also recorded the ACU for online games of approximately 217,000 for the three months ended 30 June 2010, which represented a decrease of approximately 5.7% from the three months ended 31 March 2010 and represented a decrease of approximately 30.0% from the three months ended 30 June 2009.

(2) FINANCIAL PERFORMANCE HIGHLIGHTS

SIX MONTHS ENDED 30 JUNE 2010

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue	**259,596**	336,769
Cost of revenue	**(35,347)**	(42,713)
Gross profit	**224,249**	294,056
Other income and gains	**14,946**	11,387
Selling and marketing expenses	**(48,827)**	(67,195)
Administrative expenses	**(84,180)**	(79,375)
Development costs	**(75,377)**	(87,769)
Other expenses	**(3,460)**	(412)
Net loss on derivative financial instruments	**—**	(15,214)
Net gain on financial assets designated as fair value through profit or loss	**—**	18,431
Share of losses of jointly controlled entities	**—**	(724)
Profit before taxation	**27,351**	73,185
Taxation	**(4,678)**	(6,793)
Profit for the period	**22,673**	66,392
Profit for the period attributable to:		
- Owners of the Company	**22,763**	66,392
- Non-controlling interests	**(90)**	—
	22,673	66,392

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Revenue

Revenue decreased by approximately 22.9% to approximately RMB259.6 million for the six months ended 30 June 2010 from approximately RMB336.8 million for the six months ended 30 June 2009.

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

	For the six months ended 30 June 2010		For the six months ended 30 June 2009	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
The People's Republic of China (the "PRC")	**198,226**	**76.4**	267,077	79.3
Overseas	**61,370**	**23.6**	69,692	20.7
	259,596	**100.0**	336,769	100.0

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the six months ended 30 June 2010 was approximately RMB198.2 million, representing a decrease of approximately 25.8% over the six months ended 30 June 2009.

The revenue derived from overseas markets for the six months ended 30 June 2010 was approximately RMB61.4 million, representing a decrease of approximately 11.9% over the six months ended 30 June 2009.

Second Quarter of 2010

Revenue

Revenue for the second quarter of 2010 was approximately RMB120.1 million, representing a decrease of approximately 26.2% over the same period in 2009 and a decrease of approximately 13.9% from the first quarter of 2010.

Cost of revenue

Cost of revenue for the second quarter of 2010 was approximately RMB16.6 million, representing a decrease of approximately 30.2% over the same period in 2009 and a decrease of approximately 11.2% from the first quarter of 2010.

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Other income and gains

Other income and gains of approximately RMB9.3 million were recorded for the second quarter of 2010, compared to other income and gains that of approximately RMB5.6 million and RMB5.7 million for the same period in 2009 and the first quarter of 2010, respectively.

Selling and marketing expenses

Selling and marketing expenses for the second quarter of 2010 were approximately RMB26.6 million, representing a decrease of approximately 32.5% over the same period in 2009 and an increase of approximately 20.0% from the first quarter of 2010.

Administrative expenses

Administrative expenses for the second quarter of 2010 were approximately RMB42.0 million, representing a decrease of approximately 4.1% over the same period in 2009 and maintained at a steady level as compared with the first quarter of 2010.

Development costs

Development costs for the second quarter of 2010 were approximately RMB35.6 million, representing a decrease of approximately 21.1% over the same period in 2009 and a decrease of approximately 10.3% from the first quarter of 2010.

Other expenses

Other expenses for the second quarter of 2010 were approximately RMB2.5 million, representing an increase of approximately 1,398.2% over the same period in 2009 but an increase of approximately 172.8% from the first quarter of 2010.

Profit for the period

Profit for the period for the second quarter of 2010 was approximately RMB1.5 million, representing a decrease of approximately 91.5% over the same period in 2009 and a decrease of approximately 92.9% from the first quarter of 2010. As a percentage of revenue, profit for the period accounted for approximately 1.3% for the second quarter of 2010, compared to approximately 10.8% for the same period of 2009 and approximately 15.2% for the first quarter of 2010.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the second quarter of 2010 was approximately RMB1.5 million, representing a decrease of approximately 91.1% over the same period in 2009 and a decrease of approximately 92.7% from the first quarter of 2010.

(3) FINANCIAL REVIEW

Second Quarter of 2010 Compared to First Quarter of 2010

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

	Three months ended	
	30 June 2010	31 March 2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue	**120,120**	139,476
Cost of revenue	**(16,630)**	(18,717)
Gross profit	**103,490**	120,759
Other income and gains	**9,286**	5,660
Selling and marketing expenses	**(26,630)**	(22,197)
Administrative expenses	**(42,004)**	(42,176)
Development costs	**(35,638)**	(39,739)
Other expenses	**(2,532)**	(928)
Profit before taxation	**5,972**	21,379
Taxation	**(4,468)**	(210)
Profit for the period	**1,504**	21,169
Profit for the period attributable to:		
- Owners of the Company	**1,548**	21,215
- Non-controlling interests	**(44)**	(46)
	1,504	21,169

(3) FINANCIAL REVIEW (Cont'd)

Revenue

Our revenue for the three months ended 30 June 2010 was approximately RMB120.1 million, representing a decrease of approximately 13.9% as compared to approximately RMB139.5 million for the three months ended 31 March 2010. The reasons for the drop were mainly due to (i) no new games launched during the period under review; and (ii) the continued increase in competition in overall market.

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

	For the period from 1 April 2010 to 30 June 2010		For the period from 1 January 2010 to 31 March 2010	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
PRC	**93,760**	**78.1**	104,466	74.9
Overseas	**26,360**	**21.9**	35,010	25.1
	120,120	**100.0**	139,476	100.0

The revenue derived from the PRC for the three months ended 30 June 2010 was approximately RMB93.8 million, representing a decrease of approximately 10.2% as compared to approximately RMB104.5 million for the three months ended 31 March 2010.

The revenue derived from overseas markets for the three months ended 30 June 2010 was approximately RMB26.4 million, representing a decrease of approximately 24.7% as compared to approximately RMB35.0 million for the three months ended 31 March 2010.

Cost of revenue

Cost of revenue for the three months ended 30 June 2010 was approximately RMB16.6 million, representing a decrease of approximately 11.2% as compared to approximately RMB18.7 million for the three months ended 31 March 2010, which was mainly due to the positive result from the continuing actions taken on cost control.

(3) FINANCIAL REVIEW (Cont'd)

Gross profit

Our gross profit for the three months ended 30 June 2010 was approximately RMB103.5 million, representing a decrease of approximately 14.3% as compared to approximately RMB120.8 million for the three months ended 31 March 2010.

The gross profit margin for the three months ended 30 June 2010 was approximately 86.2%, which represented a relatively steady level as compared with the three months ended 31 March 2010.

Other income and gains

Other income and gains for the three months ended 30 June 2010 were approximately RMB9.3 million, representing an increase of approximately 64.1% as compared with the three months ended 31 March 2010. The increase in other income and gains was attributable to the disposal of interests in jointly controlled entities, as a result of the Group entered into two agreements with the same independent third party in May 2010, and recognition of approximately RMB4.0 million for the gain on the disposal.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2010 were approximately RMB26.6 million, representing an increase of approximately 20.0% as compared with the three months ended 31 March 2010. The increase in the amount of selling and marketing expenses was mainly due to the increase in advertising and promotion activities for Disney Fantasy Online, which announced a co-operative arrangement with a famous PRC female artist, Miss Chris Lee (李宇春小姐), as an ambassador for the Disney Fantasy Online to promote the game in PRC region starting from the second quarter of 2010.

Administrative expenses

Administrative expenses decreased by approximately 0.4% to approximately RMB42.0 million for the three months ended 30 June 2010 as compared with the three months ended 31 March 2010, which have maintained at a steady level resulted from continuing actions taken on cost control.

(3) FINANCIAL REVIEW (Cont'd)

Development costs

Development costs decreased by approximately 10.3% to approximately RMB35.6 million for the three months ended 30 June 2010 as compared with the three months ended 31 March 2010. The number of staff in our development team was 1,449 as at 30 June 2010, which have decreased compared with the number of staff as at 31 March 2010 as a result of the implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review. The decrease in the amount of development costs was caused by (i) the decrease in co-operation with outside service companies for design and development; and (ii) the positive result from continuing actions taken on cost control.

Other expenses

Other expenses for the three months ended 30 June 2010 was approximately RMB2.5 million. The increase as compared with the three months ended 31 March 2010 was caused by a donation of RMB1.8 million to earthquake-hit Qinghai Province to support post-quake reconstruction efforts and help local people get through the disaster. Besides, there is neither net gain nor loss on derivative financial instruments and financial assets designated as fair value through profit or loss for both three months ended 30 June 2010 and 31 March 2010, due to their maturity during the second quarter of 2009.

Taxation

Taxation for the three months ended 30 June 2010 was approximately RMB4.5 million, which raised by approximately 2,027.6% as compared with the three months ended 31 March 2010. The increase as compared with the three months ended 31 March 2010 was caused by the increasing of the Enterprise Income Tax ("EIT") of Fujian TQ Digital Inc. ("TQ Digital") for the six months ended 30 June 2010 as the result of a notice issued by the PRC Ministry of Finance and the State Administration of Taxation (中國財政部國家稅務總局) (Guo Shui Han 2010 No.157) in April 2010. TQ Digital is entitled to the EIT benefits from 7.5% being increased to 12.5% for the year ending 31 December 2010.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2010 was approximately RMB1.5 million, representing a decrease of approximately RMB19.7 million as compared with approximately RMB21.2 million for the three months ended 31 March 2010.

(3) FINANCIAL REVIEW (Cont'd)

Second Quarter of 2010 Compared to Second Quarter of 2009

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

	Three months ended	
	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
	RMB'000	*RMB'000*
Revenue	**120,120**	162,871
Cost of revenue	**(16,630)**	(23,831)
Gross profit	**103,490**	139,040
Other income and gains	**9,286**	5,637
Selling and marketing expenses	**(26,630)**	(39,479)
Administrative expenses	**(42,004)**	(43,812)
Development costs	**(35,638)**	(45,195)
Other expenses	**(2,532)**	(169)
Net loss on derivative financial instruments	**—**	(15,398)
Net gain on financial assets designated as fair value through profit or loss	**—**	19,569
Share of losses of jointly controlled entities	**—**	(510)
Profit before taxation	**5,972**	19,683
Taxation	**(4,468)**	(2,090)
Profit for the period	**1,504**	17,593
Profit for the period attributable to:		
- Owners of the Company	**1,548**	17,449
- Non-controlling interests	**(44)**	144
	1,504	17,593

(3) FINANCIAL REVIEW (Cont'd)

Revenue

Our revenue for the three months ended 30 June 2010 was approximately RMB120.1 million, representing a decrease of approximately 26.2% as compared to approximately RMB162.9 million for the three months ended 30 June 2009.

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

	For the period from 1 April 2010 to 30 June 2010		For the period from 1 April 2009 to 30 June 2009	
	RMB'000	***% of total revenue***	*RMB'000*	*% of total revenue*
PRC	**93,760**	**78.1**	132,503	81.4
Overseas	**26,360**	**21.9**	30,368	18.6
	120,120	**100.0**	162,871	100.0

The revenue derived from the PRC for the three months ended 30 June 2010 was approximately RMB93.8 million, representing a decrease of approximately 29.2% as compared to approximately RMB132.5 million for the three months ended 30 June 2009.

The revenue derived from overseas markets for the three months ended 30 June 2010 amounted to approximately RMB26.4 million, representing a decrease of approximately 13.2% as compared with that of approximately RMB30.4 million for the three months ended 30 June 2009.

Cost of revenue

Cost of revenue for the three months ended 30 June 2010 decreased by approximately 30.2% to approximately RMB16.6 million as compared with that of approximately RMB23.8 million for the three months ended 30 June 2009. The decrease in cost of revenue was caused by the positive result from the continuing actions taken on cost control.

(3) FINANCIAL REVIEW (Cont'd)

Gross profit

Our gross profit for the three months ended 30 June 2010 was approximately RMB103.5 million, representing a decrease of approximately 25.6% as compared to approximately RMB139.0 million for the three months ended 30 June 2009.

However, the gross profit margin for the three months ended 30 June 2010 was approximately 86.2%, which represented a relatively steady level as compared with the three months ended 30 June 2009.

Other income and gains

Other income and gains for the three months ended 30 June 2010 increased by approximately 64.7% to approximately RMB9.3 million as compared with the three months ended 30 June 2009. The increase in other income and gains was mainly due to the disposal of interests in jointly controlled entities, as a result of the Group entered into two agreements with the same independent third party in May 2010, and recognition of approximately RMB4.0 million for the gain on the disposal.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2010 decreased by approximately 32.5% to approximately RMB26.6 million as compared with the three months ended 30 June 2009. The decrease in selling and marketing expenses was mainly due to (i) the decrease in promotion activities for the delay in launching of new games; and (ii) the decline in headcount as a result of the implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review.

Administrative expenses

Administrative expenses decreased by approximately 4.1% to approximately RMB42.0 million for the three months ended 30 June 2010 as compared with the three months ended 30 June 2009. The decrease in administrative expenses was mainly due to (i) the effect of the decrease in staff costs as a result of the implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report; and (ii) the continuing actions taken on cost control.

(3) FINANCIAL REVIEW (Cont'd)

Development costs

Development costs decreased by approximately 21.1% to approximately RMB35.6 million for the three months ended 30 June 2010 as compared with the three months ended 30 June 2009. The number of staff in our development team decreased from 1,963 as at 30 June 2009 to 1,449 as at 30 June 2010. The decrease in the amount of development costs was caused by (i) the decline in headcount as a result of the implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review; (ii) the decrease in co-operation with outside service companies for design and development; and (iii) the positive result from continuing actions taken on cost control.

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

The net amounts of other expenses, net loss on derivative financial instruments and net gain on financial assets designated as fair value through profit or loss for the three months ended 30 June 2010 recorded net loss amounted approximately RMB2.5 million, which represented an increase of approximately 163.3% from net gain amounted approximately RMB4.0 million as compared with the three months ended 30 June 2009. The increase in the net amounts of other expenses, net loss on derivative financial instruments and net gain on financial assets designated as fair value through profit or loss which was mainly attributable to the net effect of neither net loss nor gain on derivative financial instruments and financial assets designated as fair value through profit or loss due to their maturity during the second quarter of 2009.

Taxation

Taxation for the three months ended 30 June 2010 raised by approximately 113.8% as compared with the three months ended 30 June 2009. The increase was caused by the increasing of EIT of TQ Digital for the six months ended 30 June 2010 as the result of a notice issued by the PRC Ministry of Finance and the State Administration of Taxation (中國財政部國家稅務總局) (Guo Shui Han 2010 No.157) in April 2010. TQ Digital is entitled to EIT benefits from 7.5% being increased to 12.5% for the year ending 31 December 2010.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2010 was approximately RMB1.5 million, representing a decrease of approximately RMB15.9 million as compared with approximately RMB17.5 million for the three months ended 30 June 2009.

(4) BUSINESS REVIEW

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

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

Development and licensing of existing games

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

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

The Group operated its owned titled in overseas markets for years. With an aim to further expand its business into overseas markets, the Group has licensed its own in-house developed online games in various countries where market opportunities are emerging. The flagship online games in different languages were launched to attract a larger user base worldwide. We made further inroads into the Taiwan, Hong Kong and Macao after licensed Conquer Online, Eudemons Online and Zero Online. During the period under review, we commenced the open beta testing for the Traditional Chinese version of Way of the Five, which was licensed to a Taiwan-based co-operation partner, Lager Network Technologies Inc., in January 2010. We also commenced the operations of Eudemons Online in Vietnam in Vietnam Version in June 2010.

(4) BUSINESS REVIEW (Cont'd)

Games in the pipeline

The Group always believes that strengthening its core competencies and creative design capability will facilitate the successful development of new online games. The Group also explored opportunities to develop online games based on popular third party intellectual property. In the past years, members of the Group entered into several co-operative arrangements with Disney Online and Electronic Arts Inc. ("EA"), respectively.

We were entered into cooperation with Disney Online to develop Disney Fantasy Online in 2008. During the period under review, we have entered into a promotional agreement with a famous female artist, Miss Chris Lee (李宇春小姐) to act as the ambassador of Disney Fantasy Online in PRC region. The first promotional event participated by Miss Chris Lee has been launched in May 2010.

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

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

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

Expanding of business lines

The Group continues to develop mobile software applications with which the Group is targeting PRC emerging smart-phone users and it contributes an important part of our wireless business. As of 30 June 2010, the Group had 162 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.

Enhancement of R&D capabilities

As of 30 June 2010, the Group's overall staff headcount was 2,346, of which 1,449 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 supports our frequent game upgrades and updates to accommodate the latest player preferences and satisfy emerging market trends.

(4) BUSINESS REVIEW (Cont'd)

Corporate Milestones and Awards in the first half of 2010

Year 2010	Corporate Milestone/Recognitions	Products Milestone/Awards
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「年度十大新鋭遊戲」("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")*
Mar	• NetDragon was named as 「2010年上海世博會福建館指定網絡信息技術支持商」("Designated Internet and Information Technology Supporter of Fujian Pavilion for World Expo Shanghai 2010")* by 「福建省參與2010年上海世博會籌備委員會辦公室」("Preparatory Committee Office of Fujian Province on Participation in World Expo Shanghai 2010")*	
Jun	• NetDragon was awarded by the second 「戰略執行(SISS)在中國」("Business Strategy Implementation Supporting System ("SISS") in China")*, including: —「最佳實踐企業」("Enterprise of Best Practice")* —「專業貢獻獎」("Award for Professional Contribution")*	

* *For identification purpose only*

(5) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2010, we had bank deposits, bank balances and cash of approximately RMB1,198.5 million as compared with approximately RMB1,257.0 million as at 31 December 2009.

As at 30 June 2010, the Group had net current assets of approximately RMB1,204.2 million as compared with approximately RMB1,271.7 million as at 31 December 2009.

(6) FOREIGN CURRENCY RISKS

Our present operations are carried out in the PRC and the United States of America ("USA"). All our receipts and payments in relation to the operations are principally denominated in RMB and USD. In this respect, the directors of the Company (the "Director(s)") 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.

(7) CREDIT RISKS

As at 30 June 2010, 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 condensed 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 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.

(8) STAFF INFORMATION

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

	At 30 June 2010	At 31 December 2009	At 30 June 2009
Research and development	**1,449**	1,804	1,963
Operation and marketing	**525**	612	646
Accounting, finance and general administration	**372**	485	500
Total	**2,346**	2,901	3,109

As at 30 June 2010, we had a total of 2,346 employees (31 December 2009 and 30 June 2009: 2,901 and 3,109, respectively), 951 of which are game developers of the research and development department, representing approximately 40.5% of the total number of staff.

After three years' expansion of the Group, we have slowed down the recruitment by the implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report, which can be shown from the headcounts as of 31 December 2009 and 30 June 2010.

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

(9) PERFORMANCE EVALUATION

The Group has announced the Monthly Performance Evaluation Measures for Staff（全員月度績效考核實施辦法）in the first half of 2010 and the performance evaluation coverage rate was 100% while monthly participating rate for departments was 94%. Performance evaluation has become a major component in managing each department of the Group. The indicators of performance evaluation for departments and staff have been constantly optimized to put emphasis both on performing process assessment and results evaluation for achieving the targets of lower cost and higher efficiency. Through evaluation, staff can identify their weaknesses in work and make corresponding improvements; while the business managers can identify and select a backup team of talents with strong capability.

(10) STAFF TRAINING

Introduction to NetDragon University and major works in 2010

NetDragon University, established in July 2007, is an internal training base for nurturing talents in the field of management and technology for the Group. As a strong support and major component of the overall strategic development of NetDragon, NetDragon University is dedicated to providing professional and systematic training services for the staff of NetDragon. Through effective organised training, a group of high level technological and management talents has been nutured; the core competitiveness of NetDragon has been further enhanced.

The key management training programme of the Group is the Talent Nurture Programme（育龍計劃）, which formally commenced in 2010. The Talent Nurture Programme is a training project established for the purpose of the demands of management talents for the future development of NetDragon, which are classified into the Basic Talent Nurture Programme for junior management（潛龍計劃）, the Intermediate Talent Nurture Programme for middle management（飛龍計劃） and the Advanced Talent Nurture Programme for senior management（騰龍計劃）. In view of the current team development needs and staff characteristics, team-building training programmes have been launched in succession; meanwhile, the part-time lecturer team has been developed. The Group has also introduced the E-learning platform, combined E-learning training methods with management training and technological training, reallocated training resources and consolidated the training management system.

(10) STAFF TRAINING (Cont'd)

Results for the first half of 2010 and expected results for the second half of 2010

In the first half of 2010, the intensive training stage of Basic Talent Nurture Programme and the first intensive training class of Intermediate Talent Nurture Programme have completed successfully. The average training hours of each managerial grade staff was 23.28 hours. Team-building training programmes have been launched successively, which enhanced team cohesiveness and facilitated inter-departmental communication. The successful introduction of the E-learning platform has also laid a foundation for organising core training programmes and reallocating training resources.

In the second half of 2010, the training of the Basic Talent Nurture Programme will shift the improvement of junior management from the understanding of management concept to concrete management behaviour. One-on-one mentoring provided by the core staff will help train a team of potential management talents, while the Intermediate Talent Nurture Programme and the Advanced Talent Nurture Programme will train potential management talents of middle and senior levels. In addition, performance evaluation interviews project will be implemented upon completion of trial, which will expedite the effective implementation of staff performance evaluation strategy in NetDragon. The general team-building training programmes will continue to be launched in each department of NetDragon. NetDragon will further develop the E-learning platform for the second time to comply with NetDragon's internal system, facilitate reallocation of training resources and consolidate the training management system.

(11) 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

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

Sincerity

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

(12) PROSPECTS AND OUTLOOK

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

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

MMORPGs

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

Other Online Games

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

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.

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

* *For identification purpose only*

(12) PROSPECTS AND OUTLOOK (Cont'd)

To cope with the path of strengthening of the game development process, the Group continues to enhance its integrated operation model including business process management system, time management system, bug management system, production schedules system and version management system, which should help to improve the efficiency in the game operation, project management and office administrative processes. At of 30 June 2010, the Group had 170 members being employed for enhancing its integrated operation model.

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

In April 2010, the Group has acquired the prepaid lease payments and its related assets and liabilities held by Fujian TianDi Animation Technologies Co. Ltd. (福建天棣動漫科技有限公司)("Fujian TianDi"), through the acquisition of Fujian TianDi's entire registered capital. The transaction was completed on 21 June 2010. Details of the acquisition has been set forth in the circular of the Company dated 19 May 2010.

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

(13) INTERIM DIVIDEND

On the date of this report, the board of the Directors (the "Board") has resolved to declare an interim dividend of HKD0.05 per share for the six months ended 30 June 2010 (six months ended 30 June 2009: HKD0.082 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 2 September 2010. It is expected that the interim dividend will be distributed on or about 8 September 2010.

(14) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 3 September 2010 to Monday, 6 September 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2010, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 2 September 2010.

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

As at 30 June 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Name of company**	**Capacity and nature of interests**	**Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
Liu Dejian *(Note 2)*	The Company	Beneficial owner and through controlled corporations	273,512,220(L)	51.74%
Liu Dejian *(Note 3)*	Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)")	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian *(Note 3)*	Shanghai Tiankun Digital Technology Ltd. ("NetDragon (Shanghai)")	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and through controlled corporations	273,312,220(L)	51.70%
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%

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

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
Zheng Hui *(Note 2)*	The Company	Through controlled corporations	271,912,220(L)	51.44%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and through a controlled corporation	14,500,000(L)	2.74%
Chao Guowei, Charles	The Company	Beneficial owner	98,510(L)	0.01%
Lee Kwan Hung	The Company	Beneficial owner	98,510(L)	0.01%
Liu Sai Keung, Thomas	The Company	Beneficial owner	98,510(L)	0.01%

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

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 5.20%, 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 51.44% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company awarded 1,600,000 shares and 1,400,000 shares of the Company to Liu Dejian and Liu Luyuan, respectively.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.44% of the issued share capital of the Company. Chen Hongzhen had been awarded 1,600,000 shares of the Company on 7 December 2009, which represent 0.30% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.74% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited.

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

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

So far as is known to the Directors, as at 30 June 2010, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	**Name of Group member**	**Capacity and nature of interests**	**Number of ordinary shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM Holding Ltd.	The Company	Beneficial owner	185,078,100(L)	35.01%
Fitter Property Inc.	The Company	Beneficial owner	27,536,400(L)	5.20%
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%

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

Notes:

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

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

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2010, neither the Company nor its subsidiaries purchased, sold or redeemed any of its listed securities.

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the "Main Board Share Option Scheme") to replace the then existing share option scheme. As at the date of this report, no option has been granted during the six months ended 30 June 2010 under the Main Board Share Option Scheme.

SHARE AWARD SCHEME

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

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

As at 30 June 2010, total awarded amount (the "Awarded Amount") of HKD16,094,000 was awarded to a number of selected employees. The awarded shares, which purchased with the Awarded Amount and allocated by the Trustee from the total number of shares purchased by the Trustee on the market out of cash paid by the Company, will be transferred to the selected employees at nil consideration upon vesting between 6 November 2008 and 6 November 2012, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

OTHER INFORMATION

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have complied with the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2010.

INTERNAL CONTROLS

The Board has engaged an independent external professional firm to conduct an interim 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 period under review.

AUDIT COMMITTEE

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

The Group's interim results for the six months ended 30 June 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

Hong Kong, 19 August 2010

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT INC.
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 32 to 48, which comprises the condensed consolidated statement of financial position of NetDragon Websoft Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010, and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 August 2010

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Revenue	4	**259,596**	336,769
Cost of revenue		**(35,347)**	(42,713)
Gross profit		**224,249**	294,056
Other income and gains	4	**14,946**	11,387
Selling and marketing expenses		**(48,827)**	(67,195)
Administrative expenses		**(84,180)**	(79,375)
Development costs		**(75,377)**	(87,769)
Other expenses		**(3,460)**	(412)
Net loss on derivative financial instruments		**—**	(15,214)
Net gain on financial assets designated as fair value through profit or loss		**—**	18,431
Share of losses of jointly controlled entities		**—**	(724)
Profit before taxation		**27,351**	73,185
Taxation	6	**(4,678)**	(6,793)
Profit for the period	7	**22,673**	66,392
Other comprehensive income (expenses):			
Exchange differences arising on translation of foreign operations		**28**	(198)
Total comprehensive income for the period		**22,701**	66,194
Profit for the period attributable to:			
– Owners of the Company		**22,763**	66,392
– Non-controlling interests		**(90)**	—
		22,673	66,392
Total comprehensive income attributable to:			
– Owners of the Company		**22,791**	66,194
– Non-controlling interests		**(90)**	—
		22,701	66,194
		RMB cents	RMB cents
Earnings per share	10		
– Basic		**4.33**	12.63
– Diluted		**4.33**	12.62

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited)/ (Restated) RMB'000
Non-current assets			
Property, plant and equipment	11	142,937	138,011
Prepaid lease payments		54,889	12,917
Deposit paid for acquisition of property, plant and equipment		33,225	8,895
Intangible assets		12,342	12,980
Interests in jointly controlled entities	8	—	—
Available-for-sale investments		4,000	4,000
Loan receivables		6,713	7,313
Deferred tax assets		54	54
		254,160	184,170
Current assets			
Prepaid lease payments		1,101	228
Loan receivables		452	893
Trade receivables	12	19,319	14,128
Other receivables, prepayments and deposits		52,643	66,272
Held for trading investments		—	377
Amount due from a shareholder		781	—
Advance to a jointly controlled entity	13	—	29,000
Tax recoverable		5,347	20
Bank deposits		299,643	551,970
Bank balances and cash		898,905	705,053
		1,278,191	1,367,941

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited)/ (Restated) *RMB'000*
Current liabilities			
Trade payables	14	**697**	285
Other payables and accruals		**41,201**	67,881
Deferred income		**18,951**	18,189
Amount due to a related company		**34**	—
Income tax payable		**13,082**	9,935
		73,965	96,290
Net current assets		**1,204,226**	1,271,651
		1,458,386	1,455,821
Capital and reserves			
Share capital	15	**39,264**	39,264
Share premium and reserves		**1,419,696**	1,417,041
Equity attributable to owners of the Company		**1,458,960**	1,456,305
Non-controlling interests		**(574)**	(484)
		1,458,386	1,455,821

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company												
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Statutory reserves	Dividend reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	39,264	1,157,364	1,963	9,946	97,692	51,275	(12,432)	—	(55,707)	164,446	1,453,811	—	1,453,811
Other comprehensive expenses for the period	—	—	—	—	—	—	—	—	(198)	—	(198)	—	(198)
Profit for the period	—	—	—	—	—	—	—	—	—	66,392	66,392	—	66,392
Total comprehensive income for the period	—	—	—	—	—	—	—	—	(198)	66,392	66,194	—	66,194
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	1,872	—	—	1,872	—	1,872
Final dividend for 2008 paid	—	—	—	—	—	(51,275)	—	—	—	—	(51,275)	—	(51,275)
Interim dividend for 2009	—	—	—	—	—	38,208	—	—	—	(38,208)	—	—	—
At 30 June 2009 (unaudited)	39,264	1,157,364	1,963	9,946	97,692	38,208	(12,432)	1,872	(55,905)	192,630	1,470,602	—	1,470,602
At 1 January 2010	39,264	1,157,364	1,963	9,946	114,642	23,270	(10,757)	4,641	(56,491)	172,463	1,456,305	(484)	1,455,821
Other comprehensive income for the period	—	—	—	—	—	—	—	—	28	—	28	—	28
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	22,763	22,763	(90)	22,673
Total comprehensive income for the period	—	—	—	—	—	—	—	—	28	22,763	22,791	(90)	22,701
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	3,134	—	—	3,134	—	3,134
Final dividend for 2009 paid	—	—	—	—	—	(23,270)	—	—	—	—	(23,270)	—	(23,270)
Interim dividend for 2010	—	—	—	—	—	23,056	—	—	—	(23,056)	—	—	—
Transfer	—	—	—	—	17	—	—	—	—	(17)	—	—	—
At 30 June 2010 (unaudited)	39,264	1,157,364	1,963	9,946	114,659	23,056	(10,757)	7,775	(56,463)	172,153	1,458,960	(574)	1,458,386

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
NET CASH FROM OPERATING ACTIVITIES		26,473	129,098
INVESTING ACTIVITIES:			
Acquisition of assets	17	(58,149)	—
Proceeds from disposal of interests in jointly controlled entities		4,000	—
Other investing cash flows		244,409	376,212
NET CASH FROM INVESTING ACTIVITIES		190,260	376,212
NET CASH USED IN FINANCING ACTIVITIES		(23,270)	(51,275)
NET INCREASE IN CASH AND CASH EQUIVALENTS		193,463	454,035
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		705,053	332,009
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		389	228
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH		898,905	786,272

1. GENERAL

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Amendment to HKFRS 17 Lease

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

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

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

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

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

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

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

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

* IFRIC represents the International Financial Reporting Interpretations Committee

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

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

4. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Online game revenue	**259,596**	336,769
Other income and gains		
Advertising income	**368**	869
Gain on disposal of jointly controlled entities	**4,000**	—
Government grants *(Note)*	**1,110**	1,310
Interest income	**5,771**	9,144
Net gain on fair value change of held for trading investments	**1,706**	—
Technical services income	**1,143**	—
Others	**848**	64
	14,946	11,387

Note:

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

5. SEGMENT INFORMATION

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

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

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segment revenue	**259,596**	336,769
Segment profit	**46,987**	100,517
Unallocated income	**13,836**	10,077
Net loss on derivative financial instruments	**—**	(15,214)
Net gain on financial assets designated as fair value through profit or loss	**—**	18,431
Unallocated expenses	**(33,472)**	(39,902)
Share of losses of jointly controlled entities	**—**	(724)
Profit before taxation	**27,351**	73,185

The executive directors assess segment profit or loss using a measure of operating profit whereby certain items are not included in arriving at the segment result of the reportable segment (including share-based payments expense, share of losses of jointly controlled entities, net loss on derivative financial instruments, net gain on financial assets designated as fair value through profit or loss, income tax expenses, unallocated income 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:

	30 June 2010	31 December 2009
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Reportable segment assets	**1,184,553**	1,093,510
Unallocated	**347,798**	458,601
	1,532,351	1,552,111

6. TAXATION

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
The charge comprises:		
The PRC Enterprise Income Tax ("EIT")	**4,625**	6,695
Taxation in other jurisdictions	**53**	98
	4,678	6,793

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

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

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

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging:		
Staff costs:		
Directors' emoluments	**2,923**	1,753
Other staff costs		
Salaries and other benefits	**107,377**	117,977
Contributions to retirement benefits schemes	**8,222**	6,478
Share-based payments expense	**1,094**	1,072
	119,616	127,280
Amortisation of intangible assets (included in cost of revenue)	**2,298**	1,907
Amortisation of intangible assets (included in other expenses)	**870**	35
Release of prepaid lease payments	**212**	99
Depreciation of property, plant and equipment	**26,282**	22,513
Operating lease rentals in respect of:		
– rented premises	**7,534**	3,838
– computer equipment	**19,793**	23,801
Net foreign exchange loss	**3,713**	1,186
Loss on disposal of property, plant and equipment	**367**	—

8. DISPOSAL OF JOINTLY CONTROLLED ENTITIES

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

	RMB'000
Proceeds on disposal	4,000
Less: carrying amount of investment costs on the date of disposal	—
Profit recognised	4,000

9. DIVIDENDS

On 24 May 2010, a dividend of HKD0.05 per share (2009: HKD0.11 per share) was paid to shareholders as the final dividend for 2009.

The Directors have determined that an interim dividend of HKD0.05 per share (2009: HKD0.082 per share) will be paid to the shareholders of the Company whose names appear in the register of members on 2 September 2010.

10. 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:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share – profit for the period attributable to the owners of the Company	**22,763**	66,392

	Number of shares Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	'000	*'000*
Weighted average number of shares for the purpose of basic earnings per share	**526,151**	525,774
Effect of dilutive potential shares from the Company's share award scheme	**—**	147
Weighted average number of shares for the purpose of calculating diluted earnings per share	**526,151**	525,921

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

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group disposed of certain plant and machinery with a carrying amount of approximately RMB642,000 for cash proceeds of approximately RMB275,000, resulting in a loss on disposal of approximately RMB367,000 (2009: Nil).

In addition, during the current period, the Group spent approximately RMB32,143,000 (2009: RMB35,334,000) for the acquisition of property, plant and equipment to expand its operations which mainly included approximately RMB16,456,000 (2009: RMB6,738,000) in leasehold improvements and approximately RMB13,964,000 (2009: RMB2,429,000) in construction in progress.

12. TRADE RECEIVABLES

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

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

	30 June 2010 (Unaudited) ***RMB'000***	31 December 2009 (Audited) *RMB'000*
0 - 30 days	**12,991**	11,513
31 - 60 days	**3,617**	1,949
61 - 90 days	**2,155**	101
Over 90 days	**556**	565
	19,319	14,128

13. ADVANCE TO A JOINTLY CONTROLLED ENTITY

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

14. TRADE PAYABLES

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

	30 June 2010 (Unaudited) ***RMB'000***	31 December 2009 (Audited) *RMB'000*
0 - 90 days	**664**	268
91 - 180 days	**22**	6
181 - 365 days	**—**	—
Over 365 days	**11**	11
	697	285

15. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	*RMB'000*
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2009, 30 June 2009, 31 December 2009 and 30 June 2010	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2009, 30 June 2009, 31 December 2009 and 30 June 2010	528,570,860	5,285,709	39,264

At 30 June 2010 and 31 December 2009, included in the issued shares, 2,420,336 shares of the Company with an aggregate nominal value of approximately RMB181,000 were held by the Company's share award scheme.

16. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

Details of specific categories of options are as follows:

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

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

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

(ii) Share award scheme

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

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

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB286,000 for the period ended 30 June 2010 (2009: RMB1,872,000) in relation to share award.

Among the Awards granted on 15 October 2008, 376,832 Awards vested on 6 November 2008, 376,832 Awards vested on 6 November 2009, 524,594 Awards 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.

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

17. ACQUISITION OF ASSETS

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

Assets and liabilities recognised at the date of acquisition

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

Net cash outflow arising on acquisition

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

18. RELATED PARTY TRANSACTIONS

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

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

Name of/and relationship with related parties

Name of related parties	**Relationship**
Mr. Liu Luyuan	Executive director and beneficial owner of the Company
Mr. Wu Jialiang	Key management of the Group
Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.(“Fuzhou 851”)	DJM Holding Ltd. 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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Nature of transactions		
Rental charges by Fuzhou 851	**1,274**	1,138
Service fee at recreation centre paid to Fuzhou 851	**3,000**	1,083
After-sales service fee paid to Fuzhou Tianliang	**4,201**	1,079
Technical service fee paid to Fuzhou Tianliang	**900**	1,079
Interest received on loan advanced to key management	**17**	17

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

18. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Salaries, allowances and other short-term employee benefits	**1,595**	1,597
Contribution to retirement benefits schemes	**34**	33
Share-based payments expense	**3,021**	1,072
	4,650	2,702

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

19. CAPITAL COMMITMENTS

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

	30 June	31 December
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial information	**8,895**	13,832