2010 ANNUAL REPORT

NETDRAGON WEBSOFT INC.

網龍網絡有限公司

(incorporated in the Cayman Islands 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

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 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 the People's Republic of China (the "PRC"). Leveraging on its advanced core technology of research and development, acute market insight and extensive global perspective, NetDragon launched a series of original online games and mobile Internet software products with intellectual property rights, and has become a forerunner in the PRC online game and mobile Internet application and a pioneer in overseas market expansion. In recent years, the Company was awarded as the "Excellent Employer – Excellent Chinese Company for employee"(卓越僱主－中國最適宜工作的公司) by Fortune China in 2007 and 2009. The Company was also selected in the "List of Potential Enterprises in China"(中國潛力企業榜) by Forbes China in 2008 and 2009, and won the "Award for Overseas Development of Chinese Games"* (「中國遊戲海外拓展獎」) and "Top 10 Games Developers in China"* (「中國十佳遊戲開發商」) promulgated by GAPP and Information Industry Department, and the Company was awarded as the "Enterprise of Outstanding Internet Culture"*(「優秀網絡文化企業」) by Ministry of Culture as well as a series of national prizes.

NetDragon endeavours in self-developed games and strives to promote the development of online game industry. To date, it has successfully launched and been operating various flagship online games with diversified themes, including Eudemons Online, Conquer Online, Way of the Five, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Era of Faith, Tian Yuan, Disney Fantasy Online and Monster & Me. Meanwhile, NetDragon continues to research and develop games for different types of players and further expand its product lines. Currently, the Group has a number of new games in the pipeline, including World of Dungeon Keeper (previously named as Dungeon Keeper Online), TRANSFORMERS Online and a new version of Ultima Online, all of which will be launched in 2011 and onwards.

Since the commencement of mobile Internet sector in 2008, NetDragon has established the most professional teams of program development, art design and business operation. SNS open platform, 91 Mobile Products* (91手機產品) and App Store covering various mobile phone platforms have been launched to the market. 91 Panda Reader*(91熊貓看書), 91 PC Suite*(91手機助手), 91 Mobile Platform*(91手機門戶)and HIAPK*(安卓網)are favourite products for the mobile users. 91 Panda Reader*(91熊貓看書)is one of the best cross-platform book reader softwares. 91 PC Suite*(91手機助手)is the common management tool for current intelligent mobile users. HIAPK*(安卓網)has become one of the largest Android communities in the PRC. NetDragon is developing the SNS big community and will launch Gamecenter and open up SDK, in order to enrich our product lines with more favourable applications.

* *For identification purpose only*

CORPORATE PROFILE

In order to satisfy the changing needs of global users and development of the market, NetDragon has launched a series of application softwares of image management, instant messaging, wealth management, information management, entertainment and SNS, including 91 Vocabulary*(91背單詞)、91 Fortune-telling*(91算命)、91 Money*(91理財)、91 Note*(91筆記)、91U、91 Picture*（91炫圖）、91 Photo*(91看圖)、91 Forum*(91壇子)、91 Reader*(91看書)、Happy Learning*(開心學習), to provide more abundant games and entertainment services for users.

Overseas, NetDragon has become the vanguard of the PRC online game enterprises to enter the international market with successful operating results. It is one of the largest PRC online game operator in the US market and covers game markets of nine languages including English, French, Spanish and Arabic. NetDragon has taken part in the E3 exhibition in the US, which is the "Oscar" of the global game industry, and has carried out cooperation with various international famous partners, such as, Disney Interactive Media Group ("Disney") and Electronic Arts Inc. ("EA"). NetDragon has taken a great step of domestic online game to expand overseas markets.

NetDragon has been devoting in enhancing originality and innovation of research and development as its core competitiveness for years. Technologically, NetDragon has researched and developed its own 2D and 2.5D engines, and has made substantial investment in launching the motion capture device and the most advanced 3D game development engine in the industry and possesses the technologies for developing different types of online games. In terms of talent training, NetDragon always believes that recruiting and training talents are investments. With regard to corporate governance, NetDragon promotes the corporate culture of "happiness, learning, innovation and sincerity", and creates a "wonderland" full of joy where games can be found in management, working and learning environment. We employ ERP management system to monitor and supervise the whole development process of games and strive to create a favourable learning environment with our technical support of Internet .

* *For identification purpose only*

GROUP FINANCIAL SUMMARY

The consolidated statement of comprehensive income and the condensed consolidated statement of financial position of the Group for the past five financial years, as extracted from the Group's published audited consolidated financial statements, are set out bellow:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Revenue	122,061	645,214	595,981	621,836	**531,772**
Cost of revenue	(11,179)	(36,863)	(68,017)	(84,325)	**(66,333)**
Gross profit	110,882	608,351	527,964	537,511	**465,439**
Other income and gains	5,673	8,321	58,020	57,807	**60,864**
Selling and marketing expenses	(13,838)	(80,844)	(103,599)	(133,460)	**(101,993)**
Administrative expenses	(22,960)	(50,090)	(112,673)	(163,926)	**(182,022)**
Development costs	(12,835)	(37,253)	(89,823)	(201,461)	**(162,234)**
Other expenses	(15,377)	(21,404)	(19,555)	(1,959)	**(10,392)**
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)	**—**
Profit before taxation	51,543	427,081	261,904	97,005	**69,662**
Taxation	(8,558)	(52,244)	(22,635)	(10,381)	**(34,769)**
Profit for the year	42,985	374,837	239,269	86,624	**34,893**
Earnings per share					
– Basic (RMB cents)	12.21	85.01	44.49	16.57	**6.64**
– Diluted (RMB cents)	N/A	N/A	44.49	16.56	**6.64**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000 (Restated)	**2010** **RMB'000**
Non-current assets	27,412	66,572	132,608	184,170	**272,897**
Current assets	118,884	1,778,088	1,387,802	1,367,941	**1,287,043**
Current liabilities	(41,589)	(75,278)	(66,599)	(96,290)	**(108,783)**
Non-controlling interests	(129)	(112)	—	484	**540**
Equity attributable to owners of the Company	104,578	1,769,270	1,453,811	1,456,305	**1,451,697**

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Director(s)") of NetDragon, I am pleased to present the annual report of the Group for the year ended 31 December 2010.

OUR MISSION

Propelled by a spirit of innovation and entrepreneurial drive second to none, NetDragon is well on the way to achieving its full potential as a technology leader in the PRC and beyond. Since our founding in 1999, we have stayed true to our core strengths in research and development and the exploration of emerging technologies, while never losing sight of commercial viability and the consumer marketplace in which we live.

NetDragon's evolution from a small startup company to an R&D powerhouse has never been guaranteed. From our early entry into the online games business both in the PRC and abroad, it has been necessary to arduously layer brick upon brick atop our technological and commercial foundations to prepare for the opportunities that lay ahead. The bricks are NetDragon's people, the heart of our enterprise, which we take much pride and care to cultivate. Our people and their inspirations are weaved into an elaborate tapestry, designed and held together by a mortar of top-quality management, internal communication tools, ERP system, and transparent processes that enhance our corporate culture of happiness, learning, innovation and sincerity.

CHAIRMAN'S STATEMENT

OUR ACHIEVEMENTS

In 2010, NetDragon maintained its efforts in innovation and actively expanded business areas.

For our online games business, we updated flagship franchises and released new games, which spurred a rebound in our concurrent user levels from the second half of 2010. To enhance the prospects of our games business going forward, NetDragon continued to build up existing relationships and form new strategic partnerships with internationally renowned companies such as Disney, Hasbro, Inc. ("Hasbro") and EA.

For our mobile Internet business, aggregate installations of our mobile software applications has exceeded tens of millions, which includes installations of our mobile marketplace client, as of December 2010. This places NetDragon in a commanding position within the PRC's smart phone focused mobile marketplaces. Additionally, NetDragon announced an investment fund to be made in collaboration with a China-focused investment firm, which will focus on the rapidly expanding mobile Internet sector in the PRC and support the innovation and entrepreneurship of both domestic and overseas small and medium enterprises ("SMEs") as well as individual developers.

OUR FUTURE

2011 is brimming with opportunities for NetDragon. For our online games business, we plan to release our 3D massively multiplayer games - TRANSFORMERS Online and World of Dungeon Keeper - upon which we are placing high hopes. For our mobile Internet business, we expect the user base of our 91 series software applications will break the existing record, and the mindshare of our mobile marketplace to grow at home and abroad.

DIVIDEND

The Board has proposed to distribute a final dividend of HKD0.02 per share for the financial year ended 31 December 2010.

APPRECIATION

I would like to thank our management and staff for their dedication to making our goals a reality. And last but not least, I wish to express my sincerest gratitude to our shareholders and capital markets participants for your continuing confidence and interest in NetDragon.

Liu Dejian
Chairman

Hong Kong, 25 March 2011

(1) INDUSTRY REVIEW

CHINESE ONLINE GAME INDUSTRY

According to the China Internet Network Information Center, or CNNIC, as of December 2010, Internet users in China had reached 457 million[1], and Internet penetration rate stood at 34.3%[1]. This indicates that the Internet's potential in China still has ample room for growth. Ultimately the online game industry will emerge as one of the major beneficiaries. 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. Despite this, the market has proved that companies with strong development capabilities will be more competitive and has the ability to maintain its leading position in the industry.

In addition, certain hit games have been able to stay popular for several years. To extend the lifespan of games, online game developers and operators have employed various strategies, including closely monitoring user preferences, applying innovative promotion strategies, introducing frequent updates and providing more comprehensive updates with expansion packs to existing games. Due to these changing market dynamics, operators with access to large game player bases or strong capitalization generally have a competitive advantage.

Game players typically pay to play following either a "time-based" or "item-based" revenue model. Under the item-based revenue model, game players can play games for free, but may choose to pay for virtual items and other add-on services provided by game operators to enhance the game-playing experience. Under the time-based revenue model, game players are required to pay for online games based on the amount of their playing time. In recent years, due to the more flexible payment option and scalable nature from the potentially unlimited number of virtual items that can be sold in each game, item-based games have become increasingly popular among game players and game operators in China.

Although personal computers with advanced specifications are available in China, the personal computers used to play online games, including those in Internet cafes are usually much less advanced. As a result, online games that are designed to lower system specifications are able to reach a larger pool of potential game players. 2.5D games have lower system requirements than 3D games, and as such are suitable for most personal computers in China.

Sources:

1. *China Internet Network Information Center ("CNNIC")*

CHINESE MOBILE INTERNET INDUSTRY

According to the PRC Ministry of Industry and Information Technology ("MIIT"), the number of mobile subscriptions in China tallied 859 million[1] as of the end of 2010. China's mobile handset market can be classified into three groups: smart phones, feature phones and basic phones. Smart phones are generally viewed as high-end devices with PC-type functionality, and utilize operating systems such as Android, Apple iOS, Symbian and Windows Mobile. The attraction of smart phones may be attributable to higher functionality compared with feature and basic phones, as smart phone users are generally able to avail themselves of PC-type applications and services.

Prior to smart phones, mobile applications and services available through mobile carriers were often text-based and were accessible either through a carrier controlled or delimited service offering or pre-installed on a mobile phone. Other content included ring tones, wallpapers, and simple games. As network and mobile phone technologies advanced, users may be viewed as seeking multimedia and interactive functionality through their mobile phones.

With the advances mentioned above, mobile application marketplaces have emerged, aggregating content and applications from myriad content providers into a user-friendly platform. Mobile application marketplaces offer content and applications compatible with the operating systems of different mobile phone manufacturers. These marketplaces often offer middleware software, which operates on personal computers or mobile handsets, and serve as a conduit for browsing and installing desired content and applications.

According to the 27th Survey Report released by the CNNIC in January 2011, by the end of 2010, among mobile Internet services, mobile instant messaging remains the application with the highest usage (67.7%[2]), followed by mobile news (59.9%[2]), mobile search (56.6%[2]). This is thereafter followed by leisure and entertainment content, such as music, culture, games and video.

Sources:

1. *The PRC Ministry of Industry and Information Technology ("MIIT")*
2. *China Internet Network Information Centre ("CNNIC")*

(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 2010	30 September 2010	30 June 2010	31 March 2010	31 December 2009
PCU	**542,000**	589,000	449,000	451,000	492,000
ACU	**232,000**	226,000	217,000	230,000	253,000

Note: As at 31 December 2010, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online and other games.

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

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

(3) FINANCIAL PERFORMANCE HIGHLIGHTS

YEAR ENDED 31 DECEMBER 2010

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

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Revenue	**531,772**	621,836
Cost of revenue	**(66,333)**	(84,325)
Gross profit	**465,439**	537,511
Other income and gains	**60,864**	57,807
Selling and marketing expenses	**(101,993)**	(133,460)
Administrative expenses	**(182,022)**	(163,926)
Development costs	**(162,234)**	(201,461)
Other expenses	**(10,392)**	(1,959)
Net loss on derivative financial instruments	**–**	(15,214)
Net gain on financial assets designated as fair value through profit or loss	**–**	18,431
Share of losses of jointly controlled entities	**–**	(724)
Profit before taxation	**69,662**	97,005
Taxation	**(34,769)**	(10,381)
Profit for the year	**34,893**	86,624
Profit for the year attributable to:		
– Owners of the Company	**34,949**	87,108
– Non-controlling interests	**(56)**	(484)
	34,893	86,624

Revenue

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

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

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

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the year ended 31 December 2010 was approximately RMB414.6 million, representing a decrease of approximately 14.3% over the year ended 31 December 2009.

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

Fourth Quarter of 2010

Revenue

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

Cost of revenue

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

Other income and gains

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

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

Selling and marketing expenses

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

Administrative expenses

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

Development costs

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

Other expenses

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

Profit for the period

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

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the fourth quarter of 2010 was approximately RMB9.3 million, representing an increase of approximately 221.1% from the third quarter of 2010 and an increase of approximately 551.6% over the same period in 2009.

(4) FINANCIAL REVIEW

Fourth Quarter of 2010 Compared to Third Quarter of 2010

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

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

Revenue

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

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

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

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

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

Cost of revenue

Cost of revenue for the three months ended 31 December 2010 was approximately RMB14.6 million, representing a decrease of approximately 10.7% as compared to approximately RMB16.4 million for the three months ended 30 September 2010, which was mainly due to the positive result from the continuing actions taken on cost control.

Gross profit

Our gross profit for the three months ended 31 December 2010 was approximately RMB129.3 million, representing an increase of approximately 15.6% as compared to approximately RMB111.9 million for the three months ended 30 September 2010.

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

Other income and gains

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

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

Selling and marketing expenses

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

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

Administrative expenses

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

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

Development costs

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

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

Other expenses

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

Taxation

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

TQ Digital was entitled to enjoy 50% tax reduction in enterprise income tax ("EIT") rate on the technical service income for the years ended 31 December 2008 and 2009, as mentioned in the section of "Management Discussion and Analysis" of the 2008 and 2009 annual report. The SAT clarified that the tax reduction should be based on statutory tax rate of 25% instead of the preferential income tax rate of 15% for a hi-tech enterprise. The management of TQ Digital has been engaged in negotiations with the provincial government and tax bureau and the Fujian Provincial State Tax Burea (福建省國家税務局) has agreed in principle to observe the practice of other locations at that time and to defer to draw a conclusion, until the end of the year 2010, as to whether it should implement the said clarification from SAT immediately. In December 2010, the Fujian Provincial State Tax Bureau (福建省國家税務局) finally decided to implement such a circular. Thus, the EIT rate of TQ Digital on the technical service income has been increased from 7.5% to 12.5% with retrospectively effect from 1 January 2008 onwards. The tax effect caused by the change of tax rate for the years ended 31 December 2008 and 2009 was approximately RMB20.1 million.

Profit for the period attributable to the owners of the Company

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

* *For identification purpose only*

Fourth Quarter of 2010 Compared to Fourth Quarter of 2009

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

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

Revenue

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

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

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

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

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

Cost of revenue

Cost of revenue for the three months ended 31 December 2010 decreased by approximately 22.0% to approximately RMB14.6 million as compared with that of approximately RMB18.7 million for the three months ended 31 December 2009. The decrease in cost of revenue was caused by the positive result from the continuing actions taken on cost control.

Gross profit

Our gross profit for the three months ended 31 December 2010 was approximately RMB129.3 million, representing an increase of approximately 12.0% as compared to approximately RMB115.5 million for the three months ended 31 December 2009.

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

Other income and gains

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

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

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2010 decreased by approximately 30.1% to approximately RMB24.3 million as compared with the three months ended 31 December 2009. The decrease in selling and marketing expenses was mainly due to (i) the decrease in advertising and promotion activities for Eudemons Online, Way of the Five and Tian Yuan; and (ii) the decline in headcount as a result of implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review.

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

Administrative expenses

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

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

Development costs

Development costs decreased by approximately 14.3% to approximately RMB49.9 million for the three months ended 31 December 2010 as compared with the three months ended 31 December 2009. The number of staff in our development team decreased from 1,804 as at 31 December 2009 to 1,322 as at 31 December 2010. The decrease in the amount of development costs was caused by (i) the decline in headcount as a result of implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report and the effect of which has been reflected during the period under review; (ii) the decrease in co-operation with outside service companies for design and development; and (iii) the positive result from continuing actions taken on cost control.

Despite, the Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 December 2010, the total number of staff in the mobile Internet business and integrated application development was 111, which has decreased by approximately 43.4%, as compared with the number of staff as at 31 December 2009. The total development costs of mobile Internet business and integrated application development for the three months ended 31 December 2010 and 31 December 2009 were approximately RMB6.0 million and approximately RMB5.6 million, respectively.

Other expenses

Other expenses for the three months ended 31 December 2010 were approximately RMB5.6 million, which represented an increase of approximately 305.8% as compared with the three months ended 31 December 2009. The increase in the amount of other expenses was mainly caused by a donation of approximately RMB2.5 million to the Foundation.

Taxation

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

TQ Digital was entitled to enjoy 50% tax reduction in EIT rate on the technical service income for the years ended 31 December 2008 and 2009, as mentioned in the section of "Management Discussion and Analysis" of the 2008 and 2009 annual report. The SAT clarified that the tax reduction should be based on statutory tax rate of 25% instead of the preferential income tax rate of 15% for a hi-tech enterprise. The management of TQ Digital has been engaged in negotiations with the provincial government and tax bureau and the Fujian Provincial State Tax Burea (福建省國家稅務局) has agreed in principle to observe the practice of other locations at that time and to defer to draw a conclusion, until the end of the year 2010, as to whether it should implement the said clarification from SAT immediately. In December 2010, the Fujian Provincial State Tax Bureau (福建省國家稅務局) finally decided to implement such a circular. Thus, the EIT rate of TQ Digital on the technical service income has been increased from 7.5% to 12.5% with retrospectively effect from 1 January 2008 onwards. The tax effect caused by the change of tax rate for the years ended 31 December 2008 and 2009 was approximately RMB20.1 million.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 December 2010 was approximately RMB9.3 million, representing an increase of approximately RMB7.9 million as compared with approximately RMB1.4 million for the three months ended 31 December 2009.

(5) BUSINESS REVIEW

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

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

Launch of new games

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

Disney Fantasy Online

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

Tian Yuan

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

Disney
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Development and licensing of existing games

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

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

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

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

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

* *For identification purpose only*

Games in the pipeline

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

In May 2010, the Group entered into a brand licensing agreement with Hasbro, a worldwide leader in children's and family leisure time products and services, for the exclusive rights to develop an MMORPG named "TRANSFORMERS Online" based on Hasbro's iconic TRANSFORMERS brand.

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

Mobile Internet Business

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

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

* *For identification purpose only*

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

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

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

Enhancement of R&D capabilities

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

* *For identification purpose only*

Project in the Haixi Animation Creativity City (the "Project")

During the year under review, the Group has actively participated in the Project, a major development project for the construction of Haixi district implemented by the PRC government and arranged by the government of the Changle City of Fuzhou in Fujian Province.

In February 2010, the Group acquired a parcel of land (the "Owned Land") from 福建省長樂市國土資源局 (The State Land Resource Bureau of Changle City, Fujian Province) through a tender process. In April 2010, the Group further acquired the prepaid lease payments and other assets and liabilities, including the buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC (the "Property") held by Fujian TianDi, through the acquisition of Fujian TianDi's entire registered capital. The Property was initially used as the investment project of the Project, comprising five landmark buildings, including the Eudemons Building* (魔域樓) (the pentagonal building) and the Heavenly Building* (天禧樓) which are named by the Group after the acquisition. The first phase of the Project will mainly be used for the provision of training to the staff of the Company.

In October 2010, the TQ Building* (天晴樓) commenced the construction on the Property and the Owned Land and the construction was well under way. The foundation works of basement of the TQ Building* (天晴樓) and the bricklaying of its annexing building had completed. It is expected that TQ Building* (天晴樓) will top up in 2011 and commence operation in 2012. In addition to the construction of TQ Building* (天晴樓), the preparation work of design and construction of amenities including staff dormitory are in progress. It is expected that the staff dormitory will commence construction in 2011.

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

* *For identification purpose only*

As at 31 December 2010, the Group had capital commitments in relation to the development of the Project of approximately RMB187.7 million, in which the Group had settled approximately RMB38.6 million. As at the date of this report, the Group does not acquire any land in the adjacent area of the Property and the Owned Land, except for the acquisitions of the Property and the Owned Land as stated in the circular of the Company dated 19 May 2010 and the announcement of the Company dated 25 October 2010. However, we have the intention to make further acquisition of land and construction projects on the Property, the Owned Land and new acquired land (if any) in the future for implementation of the Group's participation in the Project.

Preview of the artificial design (subject to modification)

Corporate Milestones and Awards in 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「年度十大新鋭網遊」("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")*	

* *For identification purpose only*

Year 2010	Corporate Milestone/Recognitions	Products Milestone/Awards
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”)*	• Disney Fantasy Online was awarded as the「第十四屆中國國際軟博會－創新獎」(“Innovative Award” at the “Int’l Soft China 2010")* by 「中國國際軟博會組委會」(“Organizing Committee of Int’l Soft China”)* • Way of the Five was awarded as the「第十四屆中國國際軟博會－金獎」(“Golden Award” at the “Int’l Soft China 2010")* by 「中國國際軟博會組委會」(“Organizing Committee of Int’l Soft China”)*
Sep	• NetDragon (Fujian) was appraised as the「工人先鋒號」(“Pioneer Workers”)* by 「福建省總工會」(“Fujian Provincial Federation of Trade Unions”)*	
Oct	• NetDragon (Fujian) was awarded as「2010中國網絡文化盛典－中國網絡遊戲原創獎」(“The Best Original Online Game in China” at the “China Internet Culture Ceremony 2010”)* by「中國國際網絡文化博覽會組委會」(“Organizing Committee of China International Digital Content Expo”)* • NetDragon (Fujian) was graded as the「新浪認證2010年度中國網絡遊戲行業五星級優秀客服團隊」(“Five-star Excellent Customer Service Team of China Online Game Industry in 2010 recognized by SINA”)*	

* *For identification purpose only*

Year 2010	**Corporate Milestone/Recognitions**	**Products Milestone/Awards**
Nov		• Disney Fantasy Online was selected as the 「玩家最喜愛的十大網絡遊戲」 ("Players' Most Favorite Top 10 Online Games")* by 「2010年度金翎獎」("the Golden Plume Awards 2010")*
Dec	• NetDragon was awarded as「中國年度最佳網遊公司」("The Best Online Game Company in China)* by 「第十屆17173中國網絡遊戲風雲榜」("Tenth 17173 China Online Game Award List")* • NetDragon (Fujian) was accredited as the「CHINA TMT首屆移動應用評選最具投資價值移動互聯網企業TOP5」 ("Top 5 Mobile Internet Enterprises with Most Investment Value Selected by China TMT 1st Mobile Application")* by China TMT Business Association	• In the 「第十屆17173中國網絡遊戲風雲榜」("Tenth 17173 China Online Game Award List)*: — World of Dungeon Keeper was named as the「中國年度最受期待網絡遊戲」("Most Anticipated Online Game in China)* — Eudemons Online was named as「中國年度最佳2.5D網絡遊戲」("The Best 2.5D Online Game in China)*

Year 2011	**Corporate Milestone/Recognitions**	**Products Milestone/Awards**
Jan		• Eudemons Online was named as the「2010年度中國民族遊戲海外拓展獎」("Award for Overseas Development of Chinese Domestic Games for 2010")* by 「2010年度中國遊戲產業年會」("China Game Industry Annual Conference 2010")*

* *For identification purpose only*

(6) LIQUIDITY AND CAPITAL RESOURCES

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

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

(7) GEARING RATIO

As we did not have any interest bearing bank loans, our gearing ratio was zero as at 31 December 2010 and 31 December 2009.

(8) CAPITAL STRUCTURE

As at 31 December 2010, the Group's total equity amounted to approximately RMB1,451.2 million (2009: RMB1,455.8 million). Net current assets of the Group amounted to approximately RMB1,178.3 million (2009: RMB1,271.7 million).

(9) FOREIGN CURRENCY RISKS

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 United States of America ("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 affective manner. 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.

(10)CREDIT RISKS

As at 31 December 2010, 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 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.

(11)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 and amount due to a shareholder) 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.

(12)PROSPECTS AND OUTLOOK

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

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

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

Online Games

MMORPGs

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

TRANSFORMERS Online

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

World of Dungeon Keeper

In 2010, the Group carried out two closed beta testings for the 3D MMORPG, World of Dungeon Keeper. Open beta testing is expected in the second half of 2011.

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

Other Online Games

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

icombo（都市快打）*

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

Absolute Force（絕對火力）*

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

Mobile Internet Business

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

Conclusion

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

* *For identification purpose only*

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

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

Other Events

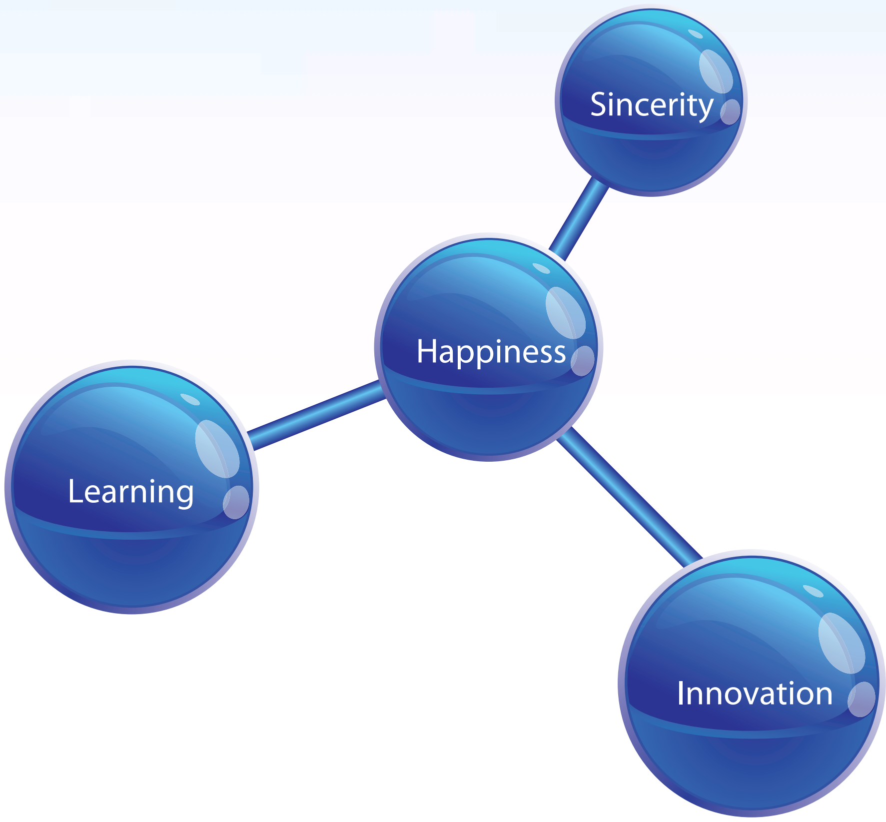
The Group started the talent optimization project from last year and its objectives are to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff. We had successfully enhanced the mobility of staff and maintained the momentum of the Group. This project also lowered the total labour cost as shown in the full year result and further stimulated staff spirit and sense of responsibility.

To cope with the path of strengthening of the development process, the Group continues to enhance its integrated operation model including business process management system, time management system, bug management system, production schedules system and version management system, which should help to improve the efficiency in the operation, project management and office administrative processes.

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.

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

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

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

CORPORATE SOCIAL RESPONSIBILITIES

As one of the leading online game developers and operators in the PRC, NetDragon prides itself on being widely recognized as a responsible corporate citizen. We aim to develop and market creative and innovative online game 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 (the "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 staff 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 staff and were recognized and appreciated by charity organizations in the community. NetDragon has received silk banners from the relevant organizations.

NetDragon Charity Committee

In 2010, the Charity Committee has been devoting to the principle of "Be Kind to the World, Protect the Environment and Care the Public"*（善行天下，環保公益）and hoping to spread our kindness and share the power of love with the society. In addition to organizing and holding charitable activities, staff of NetDragon is also encouraged to participate in the community activities so as to contribute more to the society.

The Charity Committee has conducted a wide range of charitable activities including fund raising and charity bazaars. In March 2010, it has organized "Sharing Love to Confront Merciless Drought - Fund Raising for Victims of the Western China"*（大旱無情，你我有愛－為西部受災同胞募捐） and "Raising for Yushu"*（為玉樹災區獻愛心）to raise fund for victims via One Foundation（壹基金）. In June 2010, the Charity Committee cooperated with the administrative department of the Company to carry out an environmental protection activity, "Act Now to Create a Low Carbon Environment"*(低碳環保，從我做起), within the Company. In August 2010, the Charity Committee cooperated with the human resource department to raise money for our staff member who was suffering from serious disease. This fund-raising activity has not only drawn great attention within the Company but also arose love and cares from the public with the power of Internet. In September 2010, the Charity Committee and the human resource department established "91 Charity Foundation"*（91愛心基金會）as an internal long-term rescuing mechanism to provide additional protection for our staff members and their families.

Many staff members has taken part in the various charity activities organized by the Company, which help to promote a loving and caring corporate culture within the Company.

* *For identification purpose only*

Fujian Haixi Youth Business Foundation*（福建海西青年創業基金會）

The Foundation, one of the foundations recognised by the Youth Business China (the "YBC"), was established in 2007 with the RMB6,000,000 donated by NetDragon as a non-profit charity organization. Under the leadership of the Communist Youth League of Fujian Province, it aims to cultivate entrepreneurship, improve leadership and employment competency and enhance the awareness of social responsibility of young people so as to promote harmonious development of the economy and society. Starting from 2007, NetDragon donates RMB2,000,000 to the Foundation every year and provides community services, such as venture creation training, interest-free loans and mentorship program, to support young people in Haixi. Moreover, Youth Venture Club*（青年創業俱樂部）, Youth Venture Base*（青年創業實踐基地）and Youth Venture Park*（青年創業園）have been established to provide better communication platform and environment for young people, who want to start their own businesses.

On 3 December 2010, the Foundation with the chief executive officer of the Company, Mr. Liu Luyuan, as the president of the Foundation was awarded the "Top Ten Non-Governmental Charity Fund of Forbes China 2010"*（2010福布斯中國十佳非公募慈善基金會）. Based on the annual charity donations as disclosed in the 2009 working reports of all national and local foundations registered in the PRC, 100 governmental foundations and 100 non-governmental foundations with the most charity donations were selected as nominees of this award. As an independent platform for YBC project in Fujian, the Foundation sponsored by NetDragon has been elected as the winner of such honorable award, which has greatly encouraged and promoted the general development of charity initiatives and game industry chain in Fujian Province.

Currently, the Foundation has supported nearly 1,000 young people to start their own businesses and provide trainings for over 40,000 people per day. As the president of the Foundation, Mr. Liu has not only joined as a YBC instructor to help those young people, but also recommended the senior management members of the Company to join the YBC instructor team and contribute to the YBC project.

As the only listed company in the Main Board of the Stock Exchange in Hong Kong and leading creative enterprise in the online game industry of Fujian Province, the Company is always committed to promoting the development of creative industry in Fujian Province by holding various major specialized activities to introduce new ideas and technologies to the animation and gaming industry of Fujian as well as the PRC and contribute to the development of the creative industry of Haixi and the whole country.

* *For identification purpose only*

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 Internet applications, the Group has its overall staff headcount to a total of 2,227 as at 31 December 2010.

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

In 2010, NetDragon has made significant improvements in respect of human resource management.

I. At the beginning of 2010, the Group has conducted a job analysis to further segregate the responsibilities and duties of each department and position and standardize the working objectives of the head and staff members of each department, laying a solid foundation for the performance assessment of all staff members.

II. In March 2010, the Group has adopted a self-developed performance assessment system applicable to all departments and positions. Monthly assessments will be conducted and form the base of the annual review.

III. The Group has issued the "Management Measures for Senior Officials"（幹部管理辦法）to enhance the management and training of its core talents by providing attractive remuneration and welfare package and training their management expertise awareness and skills through the "Talent Nurture Programme"（育龍計劃）of the NetDragon University. Throughout the year under review, NetDragon has cultivated numerous talented leaders with efficient management skills and specialized operation knowledge.

IV. The Group continues to attract new talents. Throughout the year under review, the Group has externally recruited a number of middle-to-senior level management members, technicians and operation officials. These talents have emerged as the backbone of the Group with their accumulated experiences and practices.

V. The Group improved the incentive system for its key members by setting up a project incentive committee to formulate and implement specific incentive plans on a project basis.

STAFF RELATIONSHIP AND WELFARE

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 game industry. As the base for training talents for the strategic development of NetDragon, 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 several high school.

In 2010, more than 150 training classes were conducted. The number of training hours exceeded 35,000 hours with an average of approximately 60 hours (more than 8 working days) per management member. There were training programs in respect of management, general skills and self-exploration with practical cases of the Group were used as teaching materials in all courses; there are 3 full time lectures and 25 part-time instructors are cultivated.

Meanwhile, as a part of the strategic development actions of NetDragon, the ND Products Development (Product Manager)（ND產品主創（產品經理））, a training project for senior-level talents, has been started successfully, which has the meaning of landmark for the development and cultivation of core talents of the Group.

In addition, the E-learning platform has been introduced and integrated with the Group's internal system, which has provided a solid foundation for the development of diversified training, technical training and knowledge management. Our highly efficient organised training system with an annual average of nearly 400 training hours per staff annually also provides strong operating support for carrying out of the training programs.

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 a 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.

EXECUTIVE DIRECTORS

Liu Dejian, aged 39, 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* (福建省青年企業家協會) in April 2006. He also obtained Fujian Youth Entrepreneur Achievement Award* (福建青年創業成就獎) in April 2005, Go Tone Fujian IT Industry Top 10 Outstanding Youth* (全球通福建IT行業十大傑出青年) in May 2005, Certificate of Fujian Entrepreneurial Tutor of the Chinese Youth Business International Programme* (中國青年創業國際計劃福建創業導師證書) in June 2005, Fujian Youth Technology Award* (福建青年科技獎) in March 2010 and Software Outstanding Talent in Fujian Province* (福建省軟件傑出人才) in September 2010. Mr. Liu is also a director of Glory More Limited, Key Command Limited, Main Honour Holdings Limited, NetDragon (Hong Kong) Limited ("NetDragon (Hong Kong)"), NetDragon Websoft Inc. ("NetDragon (BVI)"), Renowned Investments Limited and Talent Zone Holdings Limited, subsidiaries of the Company. Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

Liu Luyuan, aged 37, Executive Director, Chief Executive Officer, Compliance 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 the 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), 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 and Certificate of Part-time Professor of Fujian Normal University*（福建師範大學兼職教授）in April 2010. 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 42, Executive Director

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

Chen Hongzhan, aged 38, Executive Director, Vice President, Chief Technology Officer

Mr. Chen is our chief technology officer and is also a director of NetDragon (BVI), a 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 support to the production of our games. His technical support 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

* *For identification purpose only*

mainly responsible for game development of our Company. Mr. Chen established his own online game studio from 1996 to 1998. Before joining us in 2001, Mr. Chen worked as the project manager in Chongqing Dazhong Software Company from 1998 to 2000 and a director in the online game department in Beijing Beijibing Technology Development Company Limited from 2000 to 2001. Mr. Chen graduated with a Bachelor's degree in Mechanical-Electrical Integration from the Beijing University of Aeronautics and Astronautics in 1995.

NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 48, Non-executive Director

Mr. Lin was appointed as 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 member of the general partners 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 as a non-executive Director since 15 December 2004. Mr. Lin is also a non-executive director of Superdata Software Holdings Limited, a company previously listed on the GEM from 6 June 2003 to 18 May 2006 upon its withdrawal, since July 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 45, 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 executive officer and director of SINA Corporation ("SINA"), a publicly listed company in Nasdaq. Mr. Chao joined SINA 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 45, Independent non-executive Director

Mr. Lee was appointed as an independent non-executive Director on 15 October 2007. Mr. Lee is also the chairman of our remuneration committee, a member of our audit committee and nomination committee. He 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 and is a practising lawyer. 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, Futong Technology Development Holdings Limited, New Universe International Group Limited and Walker Group 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 38, Independent non-executive Director

Mr. Liu is the managing director of IFIC Incorporation. 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 IFIC Incorporation in 2010, he served as the managing director of Vision Capital Group in 2009, 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 39, 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. He is also in charge of the business development and the operation of the mobile Internet business division in NetDragon. 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 34, 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 10 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 43, Vice President, Corporate Development

Mr. Rhee joined us in June 2008 and is responsible for investor relations and strategic development of the Group. Before joining us, Mr. Rhee was a managing director in equities research with Bear Stearns in Hong Kong and vice president in equities research with 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 38, 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 2010.

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 and mobile Internet business, 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 37 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 2010 are set out in the Consolidated Statement of Comprehensive Income on page 82.

The interim dividend of HKD0.05 per share amounting to approximately HKD26,428,000 for the six months ended 30 June 2010 had been approved by the Directors and was paid on 8 September 2010.

The Directors now recommend the payment of a final dividend of HKD0.02 per share. The final dividend is expected to be payable on or around 24 May 2011 to shareholders whose names appear on the register of members of the Company on 16 May 2011, amounting to approximately HKD10,571,000.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2010.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2010 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 2010 are set out in note 27 of Notes to the Consolidated Financial Statements.

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2010 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2010, the Company had no reserves available for distribution to shareholders (2009: distributable reserves approximately RMB15,305,000), which comprises the dividend reserve of approximately RMB8,994,000 (2009: approximately RMB23,270,000) and accumulated loss of approximately RMB27,148,000 (2009: approximately accumulated loss RMB7,965,000) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers and the Group's largest customers accounted for approximately 2.4% and approximately 1.1%, respectively, 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 approximately 100.0% and approximately 52.0%, respectively, of the Group's total purchase for the year.

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors 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

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 Group after taxation but before extraordinary items in the relevant financial year.

In accordance with the article of association of the Company, Chen Hongzhan, Lin Dongliang and Liu Sai Keung, Thomas will retire by rotation at the forthcoming annual general meeting (the "AGM"). Chen Hongzhan, Lin Dongliang and Liu Sai Keung, Thomas, being eligible, will offer themselves for re-election at the 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 RMB250,000.00 to RMB275,000.

The annual emolument of Mr. Lee Kwan Hung, an independent non-executive Director, have been revised from RMB250,000.00 to RMB275,000.

Mr. Liu Sai Keung, Thomas, an independent non-executive Director, have been revised from RMB250,000.00 to RMB275,000.

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

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the 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 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	272,594,220 (L)	51.57%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Dejian *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and through controlled corporations	272,394,220 (L)	51.53%
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Luyuan *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Zheng Hui *(Note 2)*	The Company	Through controlled corporations	270,994,220 (L)	51.26%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Zheng Hui *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and through a controlled corporation	14,500,000 (L)	2.74%
Chao Guowei, Charles	The Company	Beneficial owner	197,019 (L)	0.03%
Lee Kwan Hung	The Company	Beneficial owner	197,019 (L)	0.03%
Liu Sai Keung, Thomas	The Company	Beneficial owner	197,019 (L)	0.03%

Notes:

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

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

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

   Zheng Hui is interested in 4.60% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 35.01% and 5.03%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.23% of the issued share capital of the Company.

   Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.26% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company awarded 1,600,000 shares and 1,400,000 shares of the Company to Liu Dejian and Liu Luyuan, respectively.

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

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

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2010, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 34 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 2010, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	**Name of Group member**	**Capacity and nature of interests**	**Number of ordinary shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM Holding Ltd.	The Company	Beneficial owner	185,078,100 (L)	35.01%
Fitter Property Inc.	The Company	Beneficial owner	26,618,400 (L)	5.03%
Eagle World International Inc. *(Note 2)*	The Company	Beneficial owner	32,952,920 (L)	6.23%
Flowson Company Limited *(Note 2)*	The Company	Through a controlled corporation	32,952,920 (L)	6.23%
IDG Group *(Note 3)*	The Company	Beneficial owner	78,333,320 (L)	14.83%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000 (L)	99.00%

Notes:

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

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

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

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

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

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

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2010.

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 EIT 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 be retained.

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 the 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 the 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 will 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 will 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 games	TQ Online will license online game softwares to NetDragon (Fujian) for use in the 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).

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

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.

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 2010, no Other Contract has been entered into.

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

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. Details of the waiver, together with its conditions, are set forth in the listing document of the Company dated 27 May 2008 (the "Listing Document").

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 2010 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).

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 a 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 be 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 commenced 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 commenced 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 ended 31 December 2009 and 2010 and year ending 31 December 2011 should not exceed RMB2,544,384 (equivalent to approximately HKD2,875,154).

   Further details of the Tenancy Agreements are set out on the announcement of the Company dated 22 January 2009.

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 ended 31 December 2009 and 2010 and year ending 31 December 2011 on annual basis should 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.

Further details of the Recreation Centre Agreement are set out in the announcement of the Company dated 27 April 2009.

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 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 financial year ended 31 December 2010 and years ending 31 December 2011 and 2012 are as follows:

	Year ended 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.

Further details of the New Service Agreement are set out in the announcements of the Company dated 27 April 2009 and 31 December 2009.

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 2010 as disclosed in the relevant announcements of the Company.

The above Transactions are also disclosed in note 34 of the Notes to the Consolidated Financial Statements as related party transactions of the Group.

In addition, the Company has engaged its auditor to report on the Structure Contracts, the Other Contracts and the Transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified letters containing the conclusions in respect of the Structure Contracts, the Other Contracts and the Transactions set out above which are 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 INTERESTS

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 2010 and as at the date of this report.

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 2010 are as follows:

Grantee	Date of grant	Exercise Price (HKD)	As at 01.01.2010	Number of share options Granted	Exercised	Lapsed	As at 31.12.2010
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 options, was HKD4.33.
2. During the year under review, no option has been granted under the Main Board Share Option Scheme.
3. During the year under review, no share options were exercised by any Director or chief executive of the Company.
4. 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 28 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 2010, 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).

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 2010, 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 2010**	**Vested during the year**	**As at 31 December 2010**
5.07	833,336	(524,594)	308,742

Note:

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

SHARE AWARD SCHEME (Cont'd)

For the year ended 31 December 2010, details of the awarded shares 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	98,509	6 Nov 2010
Lee Kwan Hung	Independent non-executive Director	98,509	6 Nov 2010
Liu Sai Keung, Thomas	Independent non-executive Director	98,509	6 Nov 2010

These shares were vested to the Selected Employees in recognition of their respective services and contribution to the Group during the year of 2010.

AUDITOR

Grant Thornton resigned as auditor of the Company with effect from 17 September 2009. Deloitte Touche Tohmatsu ("Deloitte") have been appointed as auditor of the Company to fill the casual vacancy filling the resignation of Grant Thornton. Save for the change in September 2009, there has been no changes of auditor of the Company in any of the preceeding three years.

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

On behalf of the Board
Liu Dejian
Chairman

Hong Kong, 25 March 2011

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 guidelines for dealing in the Company's securities has been held by end of 2010.

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 47 to 51. 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 four meetings and the attendance of each of the Directors at Board and committee meetings held in 2010 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)*	4/4	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	2/4	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Chao Guowei, Charles	3/4	4/4	1/1	1/1	N/A
Lee Kwan Hung	4/4	4/4	1/1	1/1	N/A
Liu Sai Keung, Thomas	4/4	4/4	1/1	1/1	N/A

Board and committee minutes are recorded in appropriate detail and are kept by the company secretary of the Company. 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 60 to 65 in the section of "Report of the Directors" under the paragraphs of "Structure Contracts".

With reference to the continuing connected transactions for the Tenancy Agreements entered into between TQ Digital, NetDragon (Fujian) and Fuzhou 851 which is owned as to approximately 72.31% and 13.85% 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 72.31% and 13.85% 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 New Service Agreement entered into between NetDragon (Fujian) and Fuzhou Tianliang which the original shareholders of Fuzhou Tianliang have been changed (with reference to the announcement of the Company on 27 April 2009), thus, Fuzhou Tianliang is deemed to be a connected person to the Company.

Details for the continuing connected transactions are set out in pages 66 to 69 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 2010 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 four meetings during 2010. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

The audit committee reviews the quarterly, interim and annual consolidated financial results of the 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 the Structure Contracts and Other Contracts of the Group.

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

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

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 2010. 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 on the basis of their merit, qualifications and competence.

The emoluments of the senior management of the Company are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, as authorised by shareholders at the AGM.

NOMINATION COMMITTEE

The Company established a nomination committee on 15 October 2007 which considers and recommends to our Board 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 2010.

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 of the Management Committee 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 members of the 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.

AUDITOR'S REMUNERATION

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

	RMB'000
Audit services	611
Non-audit services	1,975
	2,586

The above non-audit services include professional advisory fees relating to the quarterly review services, 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 2010 was approximately HKD1,744.28 million (entired issued share capital: 528,570,860 shares) at closing market price: HKD3.30 per share. The public float is around 33%.

The AGM will be held at Regus Conference Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong in Hong Kong on 20 May 2011 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 82 to 146, which comprise the consolidated statement of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a and true and fair view 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.

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 2010, 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

25 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	**2010** **RMB'000**	2009 RMB'000
Revenue	5	**531,772**	621,836
Cost of revenue		**(66,333)**	(84,325)
Gross profit		**465,439**	537,511
Other income and gains	5	**60,864**	57,807
Selling and marketing expenses		**(101,993)**	(133,460)
Administrative expenses		**(182,022)**	(163,926)
Development costs		**(162,234)**	(201,461)
Other expenses		**(10,392)**	(1,959)
Net loss on derivative financial instruments		**—**	(15,214)
Net gain on financial assets designated as fair value through profit or loss		**—**	18,431
Share of losses of jointly controlled entities		**—**	(724)
Profit before taxation		**69,662**	97,005
Taxation	7	**(34,769)**	(10,381)
Profit for the year	8	**34,893**	86,624
Other comprehensive income (expense):			
Exchange differences arising on translation of foreign operations		**(172)**	(784)
Gain on revaluation of property		**673**	—
		501	(784)
Total comprehensive income for the year		**35,394**	85,840
Profit for the year attributable to:			
– Owners of the Company		**34,949**	87,108
– Non-controlling interests		**(56)**	(484)
		34,893	86,624
Total comprehensive income attributable to:			
– Owners of the Company		**35,450**	86,324
– Non-controlling interests		**(56)**	(484)
		35,394	85,840
		RMB cents	RMB cents
Earnings per share	11		
– Basic		**6.64**	16.57
– Diluted		**6.64**	16.56

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	NOTES	2010 RMB'000	2009 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	12	128,534	138,011
Prepaid lease payments	13	87,753	12,917
Investment property	14	14,551	—
Deposit paid for acquisition of property, plant and equipment		19,050	8,895
Intangible assets	15	13,136	12,980
Interests in jointly controlled entities	16	—	—
Available-for-sale investments	17	4,000	4,000
Loan receivables	18	5,819	7,313
Deferred tax assets	19	54	54
		272,897	184,170
Current assets			
Prepaid lease payments	13	1,784	228
Loan receivables	18	893	893
Trade receivables	20	24,393	14,128
Other receivables, prepayments and deposits		40,072	66,272
Held for trading investments	21	1,079	377
Advance to a jointly controlled entity	22	—	29,000
Amount due from a related company	23	171	—
Tax recoverable		—	20
Bank deposits	24	340,828	551,970
Bank balances and cash	24	877,823	705,053
		1,287,043	1,367,941
Current liabilities			
Trade payables	25	519	285
Other payables and accruals		58,218	67,881
Deferred income		23,119	18,189
Amount due to a shareholder	26	5,328	—
Income tax payable		21,599	9,935
		108,783	96,290
Net current assets		1,178,260	1,271,651
		1,451,157	1,455,821

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	NOTE	2010 RMB'000	2009 RMB'000 (Restated)
Capital and reserves			
Share capital	27	**39,264**	39,264
Share premium and reserves		**1,412,433**	1,417,041
Equity attributable to owners of the Company		**1,451,697**	1,456,305
Non-controlling interests		**(540)**	(484)
		1,451,157	1,455,821

The consolidated financial statements on pages 82 to 146 were approved and authorised for issue by the Board of Directors on 25 March 2011 and are signed on its behalf by:

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	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	Revaluation 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	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	39,264	1,157,364	1,963	9,946	97,692	51,275	–	(12,432)	–	(55,707)	164,446	1,453,811	–	1,453,811
Other comprehensive expense for the year	–	–	–	–	–	–	–	–	–	(784)	–	(784)	–	(784)
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	–	87,108	87,108	(484)	86,624
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	–	–	(784)	87,108	86,324	(484)	85,840
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	5,660	–	–	5,660	–	5,660
Final dividend for 2008 paid	–	–	–	–	–	(51,275)	–	–	–	–	–	(51,275)	–	(51,275)
Interim dividend for 2009 paid	–	–	–	–	–	–	–	–	–	–	(38,208)	(38,208)	–	(38,208)
Final dividend for 2009 proposed	–	–	–	–	–	23,270	–	–	–	–	(23,270)	–	–	–
Awarded shares vested to employees	–	–	–	–	–	–	–	1,675	(1,019)	–	(663)	(7)	–	(7)
Transfer	–	–	–	–	16,950	–	–	–	–	–	(16,950)	–	–	–
	–	–	–	–	16,950	(28,005)	–	1,675	4,641	–	(79,091)	(83,830)	–	(83,830)
At 31 December 2009	39,264	1,157,364	1,963	9,946	114,642	23,270	–	(10,757)	4,641	(56,491)	172,463	1,456,305	(484)	1,455,821
Other comprehensive income (expense) for the year	–	–	–	–	–	–	673	–	–	(172)	–	501	–	501
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	–	34,949	34,949	(56)	34,893
Total comprehensive income (expense) for the year	–	–	–	–	–	–	673	–	–	(172)	34,949	35,450	(56)	35,394
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	6,268	–	–	6,268	–	6,268
Final dividend for 2009 paid	–	–	–	–	–	(23,270)	–	–	–	–	–	(23,270)	–	(23,270)
Interim dividend for 2010 paid	–	–	–	–	–	–	–	–	–	–	(23,056)	(23,056)	–	(23,056)
Final dividend for 2010 proposed	–	–	–	–	–	8,994	–	–	–	–	(8,994)	–	–	–
Awarded shares vested to employees	–	–	–	–	–	–	–	2,263	(1,370)	–	(893)	–	–	–
Transfer	–	–	–	–	6,697	–	–	–	–	–	(6,697)	–	–	–
	–	–	–	–	6,697	(14,276)	–	2,263	4,898	–	(39,640)	(40,058)	–	(40,058)
At 31 December 2010	39,264	1,157,364	1,963	9,946	121,339	8,994	673	(8,494)	9,539	(56,663)	167,772	1,451,697	(540)	1,451,157

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 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**69,662**	97,005
Adjustments for:		
Share of losses of jointly controlled entities	**—**	724
Gain on disposal of jointly controlled entities	**(4,000)**	—
Gain on fair value changes of investment property	**(3,573)**	—
Net gain on financial assets designated as fair value through profit or loss	**—**	(18,431)
Net loss on derivative financial instruments	**—**	15,214
Interest income	**(12,344)**	(14,578)
Net gain on held for trading investments	**(4,655)**	(3,113)
Release of prepaid lease payments	**566**	206
Amortisation of intangible assets	**6,856**	5,048
Depreciation of property, plant and equipment	**51,477**	49,419
Share-based payments expense	**6,268**	5,660
Loss on disposal of property, plant and equipment	**366**	13
Allowances on trade receivables	**16**	295
Operating cash flows before movements in working capital	**110,639**	137,462
Increase in trade receivables	**(10,281)**	(4,923)
Decrease in other receivables, prepayments and deposits	**28,269**	8,544
Decrease in held for trading investments	**3,968**	2,736
Decrease in derivative financial instruments	**—**	16,643
Increase in amount from a related company	**(171)**	—
Increase in trade payables	**234**	66
(Decrease) increase in other payables and accruals	**(9,958)**	31,261
Increase in deferred income	**4,930**	1,351
Cash generated from operations	**127,630**	193,140
Income tax paid	**(23,085)**	(13,280)
NET CASH FROM OPERATING ACTIVITIES	**104,545**	179,860

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	NOTE	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES			
Interest received		10,582	12,252
Proceeds from disposal of interests in jointly controlled entities		4,000	—
Acquisition of interests in jointly controlled entities		—	(500)
Acquisition of assets through acquisition of a subsidiary	33	(58,149)	—
Proceeds from disposal of property, plant and equipment		317	5
Decrease in bank deposits		211,142	77,484
Advance of loan receivables		—	(1,800)
Repayment of loan receivables		1,494	869
Repayment of (advance to) a jointly controlled entity		29,000	(29,000)
Purchase of prepaid lease payments		(33,901)	(34,826)
Purchase of property, plant and equipment		(30,146)	(55,097)
Purchase of intangible assets		(7,250)	(7,289)
Deposit paid for acquisition of property, plant and equipment		(19,050)	(8,895)
Proceeds on disposal of financial assets designated as fair value through profit or loss		—	330,237
NET CASH FROM INVESTING ACTIVITIES		108,039	283,440
FINANCING ACTIVITIES			
Dividends paid		(46,326)	(89,483)
Advance from a shareholder		5,328	—
NET CASH USED IN FINANCING ACTIVITIES		(40,998)	(89,483)
NET INCREASE IN CASH AND CASH EQUIVALENTS		171,586	373,817
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		705,053	332,009
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		1,184	(773)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		877,823	705,053

1. GENERAL

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

The Company is an investment holding company. The principal activities of the 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.

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

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").

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

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

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

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

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

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

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

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

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 February 2010

* IFRIC represents the International Financial Reporting Interpretations Committee

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below:

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 and 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recongise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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. Additional losses are 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in jointly controlled entities (Cont'd)

Where a group entity transacts with a jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of the interests in the jointly controlled entity that are not related to the Group.

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 is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset 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 estimated future cash receipts through 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 (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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. 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.

Property, plant and equipment

Property, plant and equipment including land and building held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the profit or loss in the period in which the item is derecognised.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised 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 lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into an operating lease, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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.

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. 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 under the heading of translation reserve.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets at FVTPL

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.

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, amount due from a related company, 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

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.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

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.

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 instruments

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities

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

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 in its entirety, 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.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 activities (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), on the same basis as intangible assets acquired separately.

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 those 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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 profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in 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.

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

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.

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.

Allowances on trade 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

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

Notes:

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

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

6. SEGMENT INFORMATION

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

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

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

	2010	2009
	RMB'000	RMB'000
Segment revenue	**531,772**	621,836
Segment profit	**124,515**	137,006
Unallocated income and gains	**27,622**	20,669
Net loss on derivative financial instruments	**—**	(15,214)
Net gain on financial assets designated as FVTPL	**—**	18,431
Unallocated expenses	**(82,475)**	(63,163)
Share of losses of jointly controlled entities	**—**	(724)
Profit before taxation	**69,662**	97,005

The accounting policies of the operating segment are the same as the Group's accounting policies 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 on derivative financial instruments, net gain on financial assets designated as FVTPL, income tax expenses, unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

6. SEGMENT INFORMATION (Cont'd)

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

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

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

Geographical information

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

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

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

6. SEGMENT INFORMATION (Cont'd)

Geographical information (Cont'd)

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

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

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

7. TAXATION

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

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

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

7. TAXATION (Cont'd)

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

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

Under the Law of People's Republic of China on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of 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 2010 (2009: 12.5%).

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

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

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

7. TAXATION (Cont'd)

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

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

Notes:

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

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

Details of deferred taxation are set out in note 19.

8. PROFIT FOR THE YEAR

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

9. DIRECTORS' AND EMPOLYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the eight (2009: eight) directors were as follows:

	2010				
	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	—	1,342	1,797
Mr. Liu Luyuan	—	470	11	1,173	1,654
Mr. Zheng Hui	—	121	10	—	131
Mr. Chen Hongzhan	—	395	9	1,341	1,745
Non-executive director					
Mr. Lin Dongliang	—	—	—	—	—
Independent non-executive directors					
Mr. Chao Guowei, Charles	275	—	—	75	350
Mr. Lee Kwan Hung	275	—	—	75	350
Mr. Liu Sai Keung, Thomas	275	—	—	75	350
	825	1,441	30	4,081	6,377

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

Directors' emoluments (Cont'd)

	2009				
	Fees	Salaries and other benefits	Contributions to retirement benefits schemes	Share-based payments expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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

Employees' emoluments

The emoluments of the five highest paid individuals included three (2009: two) executive directors of the Company, whose emoluments are included in the disclosures above. The emoluments of the remaining two individuals (2009: three) were as follows:

	2010	2009
	RMB'000	RMB'000
Salaries and other benefits	**6,244**	2,743
Contribution to retirement benefits schemes	**21**	26
Share-based payments expense	**—**	1,618
	6,265	4,387

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

Employees' emoluments (Cont'd)

Their emoluments were within the following bands:

	2010 Number of employees	2009 Number of employees
Nil to Hong Kong dollars ("HKD") 1,000,000	**—**	—
HKD1,000,001 to HKD1,500,000	**—**	1
HKD1,500,001 to HKD2,000,000	**—**	2
Over HKD2,000,000	**2**	—
	2	3

During the year ended 31 December 2010, 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 2010 (2009: nil).

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

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

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

The weighted average number of shares shown above has been arrived at after deducting the weighted average effect of 1,895,742 shares (2009: 2,420,336 shares) held by the Company's share award scheme as set out in note 28.

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000 (Restated)	Leasehold improvements RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000 (Restated)
COST						
At 1 January 2009	3,586	5,275	124,148	6,712	7,517	147,238
Exchange adjustments	(2)	(1)	(2)	—	—	(5)
Additions	33,329	10,926	38,292	1,660	7,084	91,291
Reclassification	—	7,517	—	—	(7,517)	—
Disposals	—	—	(268)	—	—	(268)
At 31 December 2009	36,913	23,717	162,170	8,372	7,084	238,256
Exchange adjustments	(1,065)	(16)	(12)	—	—	(1,093)
Additions	—	21,361	7,445	1,442	8,793	39,041
Acquired of assets through acquisition of a subsidiary	—	—	141	—	14,924	15,065
Reclassification	—	22,008	—	—	(22,008)	—
Disposals	—	(117)	(1,032)	(1,525)	—	(2,674)
Transfer to investment property	(10,581)	—	—	—	—	(10,581)
At 31 December 2010	25,267	66,953	168,712	8,289	8,793	278,014
DEPRECIATION						
At 1 January 2009	318	2,352	46,321	2,087	—	51,078
Exchange adjustments	—	—	(2)	—	—	(2)
Provided for the year	291	5,533	41,861	1,734	—	49,419
Eliminated on disposals	—	—	(250)	—	—	(250)
At 31 December 2009	609	7,885	87,930	3,821	—	100,245
Exchange adjustments	(13)	(3)	(9)	—	—	(25)
Provided for the year	920	9,938	38,786	1,803	—	51,447
Eliminated on disposals	—	(53)	(974)	(964)	—	(1,991)
Transfer to investment property	(196)	—	—	—	—	(196)
At 31 December 2010	1,320	17,767	125,733	4,660	—	149,480
CARRYING VALUES						
At 31 December 2010	23,947	49,186	42,979	3,629	8,793	128,534
At 31 December 2009	36,304	15,832	74,240	4,551	7,084	138,011

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:

Leasehold land and buildings	Over the shorter of the terms of the leases, or 20 years
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%

An analysis of the carrying values of leasehold land and buildings are as below:

	2010 RMB'000	2009 RMB'000 (Restated)
In Hong Kong		
Long lease	**19,557**	31,664
In the PRC other than in Hong Kong		
Medium-term lease	**4,390**	4,640
	23,947	36,304

13. PREPAID LEASE PAYMENTS

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

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

14. INVESTMENT PROPERTY

	RMB'000
Fair value	
At 1 January 2009 and 31 December 2009	—
Transfer from property, plant and equipment during the year	11,058
Net increase in fair value recognised	3,573
Exchange adjustments	(80)
At 31 December 2010	14,551

The fair values of the Group's investment property, including both land and building elements, at 1 October 2010, date of transfer, and 31 December 2010 have been arrived at on the basis of a valuation carried out on those dates by Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation report on the property was signed by a director of Asset Appraisal Limited who is a member of The Hong Kong Institute of Surveyors. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

The Group's investment property is located in Hong Kong which is held under long lease.

The Group's investment property held under operating leases to earn rentals or for capital appreciation purposes are classified as investment properties and are accounted for using the fair value model.

15. INTANGIBLE ASSETS

	Film rights	Trademark	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2009	—	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
Exchange adjustments	—	(602)	(602)
Additions	1,690	5,560	7,250
At 31 December 2010	6,700	21,306	28,006
AMORTISATION			
At 1 January 2009	—	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
Exchange adjustments	—	(364)	(364)
Provide for the year	1,924	4,932	6,856
At 31 December 2010	2,898	11,972	14,870
CARRYING VALUES			
At 31 December 2010	3,802	9,334	13,136
At 31 December 2009	4,036	8,944	12,980

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	17.39% - 33.33%

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

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

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

* For identification purpose only

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

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

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

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

In May 2010, the Group entered into two agreements with the same independent third party for the disposal of interests in jointly controlled entities. These transactions have resulted in the recognition of a gain in the consolidated statement of comprehensive income, calculations as follows:

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

17. AVAILABLE-FOR-SALE INVESTMENTS

	2010 & 2009
	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.

18. LOAN RECEIVABLES

	2010	2009
	RMB'000	RMB'000
Fixed-rate loan receivables	**6,712**	8,206
Analysed as:		
Current	**893**	893
Non-current	**5,819**	7,313
	6,712	8,206

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

	2010	2009
	%	%
Effective interest rate:		
Fixed-rate loan receivables (per annum)	**4.896**	4.896

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.

19. 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 2009, 31 December 2009 and 31 December 2010	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 RMB54,158,000 (2009: RMB49,084,000). 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 RMB205,731,000 (2009: RMB190,535,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. Included in unrecognised tax losses of approximately RMB204,969,000 (2009: RMB190,373,000) that will expire in 2015. Other losses may be carried forward indefinitely.

20. TRADE RECEIVABLES

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

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

20. 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 RMB6,143,000 (2009: RMB2,615,000) 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 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

	2010	2009
	RMB'000	RMB'000
31 - 60 days	**4,876**	1,949
61 - 90 days	**1,000**	101
Over 90 days	**267**	565
Total	**6,143**	2,615

Movement in the allowance for doubtful debts

	2010	2009
	RMB'000	RMB'000
At beginning of year	**295**	—
Allowances recognised on receivables	**16**	295
At end of year	**311**	295

Included in the allowance for doubtful debts are individually impaired trade receivables within an aggregate balance of RMB311,000 (2009: 295,000) of which the debtors have been in dispute with the Group.

21. HELD FOR TRADING INVESTMENTS

	2010 RMB'000	2009 RMB'000
Equity securities listed in the PRC	**1,079**	377

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

22. ADVANCE TO A JOINTLY CONTROLLED ENTITY

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

23. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company disclosed pursuant to section 161B of the Companies Ordinance is as follows:

Name of related company	Terms	Balance at 31 December 2010 RMB'000	Balance at 31 December 2009 RMB'000	Maximum amount outstanding during the year RMB'000
福州天亮網絡技術有限公司 Fuzhou Tianliang Network Technology Company Limited ("Fuzhou Tianliang")	Unsecured, non-interest bearing and repayable on demand	171	–	1,321

Note : Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, which acting under the instruction of controlling shareholders.

24. BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and bank deposits carry interest at prevailing banking deposit rates which ranges from 0.001% to 2.25% (2009: 0.1% to 2.25%) 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:

	2010	2009
	RMB'000	RMB'000
HKD	**35,755**	35,873
USD	**271,549**	489,719

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.

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

26. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, non-interest bearing and is repayable on demand.

27. SHARE CAPITAL

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

At 31 December 2010, 1,895,742 (2009: 2,420,336) issued shares of the Company with an aggregate nominal value of approximately RMB8,494,000 (2009: RMB10,757,000) were held by the Company's share award scheme (see note on share award scheme below).

28. 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 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 6,800,000 (31 December 2009: 6,800,000), representing 1.29% (31 December 2009: 1.29%) 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.

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

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

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.

Details of specific categories of options are as follows:

Date of grant	**Vesting period**	**Exercise period**	**No. of share option**
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

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 2010 and 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 2010			2,720,000
Exercisable at the end of the year 2009			1,360,000

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

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

No share options were granted or exercised during the year. The number of share options outstanding at 31 December 2010 was 6,800,000.

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

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 RMB5,697,000 for the year ended 31 December 2010 (2009: RMB3,211,000) 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.

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

(ii) Share award scheme (Cont'd)

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.

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 those 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 Conditions 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 RMB571,000 for the year ended 31 December 2010 (2009: RMB2,449,000) in relation to share award.

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

(ii) Share award scheme (Cont'd)

Movements in the share awards granted during the year ended 31 December 2010 are as follows:

Name of category of participant	Date of grant	Outstanding as at 1 January 2010	Aggregate Awards vested and released during the year	Outstanding as at 31 December 2010
Independent non-executive directors:				
Mr. Chao Guowei, Charles	15 October 2008	98,509	(98,509)	—
Mr. Lee Kwan Hung	15 October 2008	98,509	(98,509)	—
Mr. Liu Sai Keung, Thomas	15 October 2008	98,509	(98,509)	—
Other employees	15 October 2008	537,809	(229,067)	308,742
		833,336	(524,594)	308,742

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

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

(ii) Share award scheme (Cont'd)

The following table discloses movement of the 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 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

29. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 RMB'000	2009 RMB'000
Assets and liabilities		
Investments in subsidiaries	**167,871**	167,871
Other receivables and prepayment	**159**	56
Amounts due from subsidiaries	**807,534**	670,239
Bank balances and cash	**207,217**	370,634
Other payables	**(1,622)**	(1,345)
Amounts due to subsidiaries	**(1,894)**	(1,894)
	1,179,265	1,205,561
Capital and reserves		
Share capital	**39,264**	39,264
Share premium and reserves	**1,140,001**	1,166,297
	1,179,265	1,205,561

30. 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.

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,272,850**	1,341,785
Held for trading investments	**1,079**	377
Available-for-sale investments	**4,000**	4,000
Financial liabilities		
Amortised cost	**58,737**	65,169

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held for trading investments, amount due from a related company, advance to a jointly controlled entity, loan receivables, trade receivables, other receivables, bank deposits, bank balances and cash, trade payables, other payables and accruals and amount due to a shareholder. 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. 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.

31. 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 (including trade receivables, other receivables, prepayments and deposits, bank balances and cash, trade payables and other payables and accruals) at the end of the reporting period are as follows:

	Assets		Liabilities	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**58,068**	91,917	**12,430**	6,523
USD	**271,615**	500,398	**1,271**	1,309

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 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 profit for the year and the amounts below would be positive.

31. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis (Cont'd)

	2010 RMB'000	2009 RMB'000
Profit for the year		
HKD	**(1,905)**	(3,565)
USD	**(11,286)**	(20,836)

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.

(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 18). 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 bank deposits (set out in note 24) carried at prevailing banking deposit rates. The Group's bank deposits are short-term in nature and the exposure of the interest rate risk for bank deposits are considered minimal and no sensitivity to interest rate risk is presented.

Credit risk

As at 31 December 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 consolidated statement of financial position.

31. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

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.

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 and amount due to a shareholder) 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.

Fair value measurements recognised in the statement of financial position. The available-for-sale investments that are measured subsequent to initial recognition at fair value, their fair value measurements are classified to level 1, those derived from quoted prices (unadjusted) in active market for identical assets or liabilities. There were no transfer between level 2 and level 3 in the current and prior years.

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.

32. 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 2010 made by the Group amounted to approximately RMB17,575,000 (2009: RMB14,604,000).

33. ACQUISITION OF ASSETS

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

Assets and liabilities recognised at the date of acquisition

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

33. ACQUISITION OF ASSETS (Cont'd)

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

34. RELATED PARTY TRANSACTIONS

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

The Group had the following significant related party transactions and balances during the year 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., the immediate holding company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, together have 86.16% equity interest in this entity
Fuzhou Tianliang	An entity wholly owned by Ms. Lin Hang, who acting under the instruction of controlling shareholders

Nature of transactions

	2010 RMB'000	2009 RMB'000
Rentals charges by Fuzhou 851	6,000	2,500
Service fee at recreation centre paid to Fuzhou 851	2,544	4,083
After-sales service fee paid to Fuzhou Tianliang	10,393	3,212
Technical service fee paid to Fuzhou Tianliang	2,227	3,212
Interest received on loan advanced to key management	34	34

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

34. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

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

	2010	2009
	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	**5,825**	3,278
Contribution to retirement benefits schemes	**93**	69
Share-based payments expense	**4,534**	4,640
	10,452	7,987

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

35. CAPITAL COMMITMENTS

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

	2010	2009
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**149,072**	13,832

36. OPERATING LEASE COMMITMENTS

The Group as lessee

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:

	2010 RMB'000	2009 RMB'000
Within one year	13,283	19,486
In the second to fifth year inclusive	8,321	17,025
Over five years	14,041	14,041
	35,645	50,552

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.

The Group as lessor

Property rental income earned during the year was approximately RMB96,000 (2009: Nil). The property is expected to generate rental yields of 2.1% on an ongoing basis. The property held has committed tenants for the next 2 years.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2010 RMB'000	2009 RMB'000
Within one year	311	—
In the second to fifth year inclusive	197	—
	508	—

37. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2010 and 2009 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

37. 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 owners' 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. Accordingly, the losses of these entities, if any, and their assets and liabilities are included in the consolidated financial statements.

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.