

2011 INTERIM REPORT



NETDRAGON WEBSOFT INC.

網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 777

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Management Discussion and Analysis

(1) OPERATION INFORMATION

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

	30 June 2011	For the three months ended			
		31 March 2011	31 December 2010	30 September 2010	30 June 2010
PCU	643,000	546,000	542,000	589,000	449,000
ACU	311,000	246,000	232,000	226,000	217,000

Note: As at 30 June 2011, our online game includes 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 game was approximately 643,000 for the three months ended 30 June 2011, representing an increase of approximately 17.8% from the three months ended 31 March 2011 and representing an increase of approximately 43.2% from the three months ended 30 June 2010.

We also recorded the ACU for online game of approximately 311,000 for the three months ended 30 June 2011, which represented an increase of approximately 26.4% from the three months ended 31 March 2011 and represented an increase of approximately 43.3% from the three months ended 30 June 2010.

Management Discussion and Analysis

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Revenue

Revenue for the six months ended 30 June 2011 was approximately RMB341.1 million, representing an increase of approximately 31.4% as compared to approximately RMB259.6 million for the six months ended 30 June 2010.

Online game

Our online game revenue for the six months ended 30 June 2011 was approximately RMB325.5 million, representing an increase of approximately 25.4% as compared to approximately RMB259.6 million for the six months ended 30 June 2010.

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

	For the six months ended 30 June		2010	
	2011			
	RMB'000	% of online game revenue	RMB'000	% of online game revenue
The People's Republic of China (the "PRC")	260,258	80.0	198,226	76.4
Overseas	65,261	20.0	61,370	23.6
	<u>325,519</u>	<u>100.0</u>	<u>259,596</u>	<u>100.0</u>

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the six months ended 30 June 2011 was approximately RMB260.2 million, representing an increase of approximately 31.3% over the six months ended 30 June 2010.

The online game revenue derived from overseas markets for the six months ended 30 June 2011 was approximately RMB65.3 million, representing an increase of approximately 6.3% over the six months ended 30 June 2010.

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Mobile Internet business

The Group had commenced the establishment of the mobile Internet business in 2008 and started to contribute revenue in early 2010. After three years sustained investment and development on the mobile Internet business, it becomes another core business of the Group during the period under review, the proposed spin-off of its mobile Internet business in 2011 which helps the Group to achieve the valuation potential. For the six months ended 30 June 2011, revenue generated from the mobile Internet business was approximately RMB15.6 million, which representing approximately 4.6% of the total revenue. While compared with mobile Internet business revenue, which previously classified as "Other income and gains", for the six months ended 30 June 2010 was approximately RMB1.5 million, representing an increase of approximately 920.3%. Whereas, mobile Internet business revenue for the six months ended 30 June 2010 included two categories in the "Other income and gains", which are the mobile Internet business income and others, for the amounts of approximately RMB1.1 million and approximately RMB0.4 million, respectively.

Second Quarter of 2011

Revenue

Revenue for the second quarter of 2011 was approximately RMB184.3 million, representing an increase of approximately 17.6% from the first quarter of 2011 and an increase of approximately 53.4% over the same period in 2010.

However, the online game revenue for the second quarter of 2011 was approximately RMB174.9 million, representing an increase of approximately 16.1% from the first quarter of 2011 and an increase of approximately 45.6% over the same period in 2010.

Besides, the mobile Internet business for the second quarter of 2011 was approximately RMB9.4 million, representing an increase of approximately 54.8% from the first quarter of 2011 and an increase of approximately 2,158.6% over the same period in 2010 which previously classified as "Other income and gains".

Cost of revenue

Cost of revenue for the second quarter of 2011 was approximately RMB14.1 million, represented a relatively steady level for the first quarter of 2011 and a decrease of approximately 15.2% over the same period in 2010.

Management Discussion and Analysis

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Other income and gains

Other income and gains of approximately RMB5.6 million were recorded for the second quarter of 2011, compared to other income and gains that of approximately RMB9.9 million and approximately RMB9.3 million for the first quarter of 2011 and the same period in 2010, respectively.

Meanwhile, as mentioned in the above paragraph headed "Revenue - Mobile Internet business", the income derived from mobile Internet business for the six months ended 30 June 2011 had been re-classified as "Revenue", thus there did not have comparative figures presented in other income and gains during the period under review. For the second quarter of 2010, mobile Internet business income was approximately RMB0.4 million, which included two categories in the "Other income and gains", the mobile Internet business income and others.

Selling and marketing expenses

Selling and marketing expenses for the second quarter of 2011 were approximately RMB34.4 million, representing an increase of approximately 36.0% from the first quarter of 2011 and an increase of approximately 29.3% over the same period in 2010.

Administrative expenses

Administrative expenses for the second quarter of 2011 were approximately RMB48.9 million, representing an increase of approximately 4.9% from the first quarter of 2011 and representing an increase of approximately 16.4% over the same period in 2010.

Development costs

Development costs for the second quarter of 2011 were approximately RMB35.0 million, representing a decrease of approximately 13.7% from the first quarter of 2011 and a decrease of approximately 1.7% over the same period in 2010.

Other expenses

Other expenses for the second quarter of 2011 were approximately RMB0.8 million, representing a decrease of approximately 59.3% from the first quarter of 2011 and a decrease of approximately 69.7% over the same period in 2010.

Profit for the period

Profit for the period for the second quarter of 2011 was approximately RMB43.0 million, representing an increase of approximately 23.9% from the first quarter of 2011 and an increase of approximately 2,757.0% over the same period in 2010. As a percentage of revenue, profit for the period accounted for approximately 23.3% for the second quarter of 2011, compared to approximately 22.1% for the first quarter of 2011 and approximately 1.3% for the same period of 2010, respectively.

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the second quarter of 2011 was approximately RMB42.9 million, representing an increase of approximately 24.0% from the first quarter of 2011 and an increase of approximately 2,672.4% over the same period in 2010.

Management Discussion and Analysis

(3) FINANCIAL REVIEW

Second Quarter of 2011 Compared to First Quarter of 2011

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

	Three months ended	
	30 June 2011 (Unaudited)	31 March 2011 (Unaudited)/ (Restated)
	RMB'000	RMB'000
Revenue	184,304	156,755
Cost of revenue	(14,109)	(14,543)
Gross profit	170,195	142,212
Other income and gains	5,572	9,912
Selling and marketing expenses	(34,435)	(25,318)
Administrative expenses	(48,875)	(46,591)
Development costs	(35,025)	(40,577)
Other expenses	(768)	(1,885)
Share of loss of an associate	(77)	—
Profit before taxation	56,587	37,753
Taxation	(13,617)	(3,081)
Profit for the period	42,970	34,672
Profit for the period attributable to:		
– Owners of the Company	42,917	34,612
– Non-controlling interests	53	60
	42,970	34,672

(3) FINANCIAL REVIEW (Cont'd)

Revenue

Revenue for the three months ended 30 June 2011 was approximately RMB184.3 million, representing an increase of approximately 17.6% as compared to approximately RMB156.8 million for the three months ended 31 March 2011.

Online game

Our online game revenue for the three months ended 30 June 2011 was approximately RMB174.9 million, representing an increase of approximately 16.1% as compared to approximately RMB150.7 million for the three months ended 31 March 2011.

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

	Three months ended		31 March 2011	
	30 June 2011			
	RMB'000	% of online game revenue	RMB'000	% of online game revenue
PRC	142,283	81.4	117,975	78.3
Overseas	32,580	18.6	32,681	21.7
	<u>174,863</u>	<u>100.0</u>	<u>150,656</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 June 2011 was approximately RMB142.3 million, representing an increase of approximately 20.6% as compared to approximately RMB118.0 million for the three months ended 31 March 2011. The increase in online game revenue derived from the PRC was mainly due to the release of new Chinese expansion pack "Edge of Night" of Eudemons Online in April 2011, which resulted in enhancing the attractiveness of the game for the three months ended 30 June 2011.

The online game revenue derived from overseas markets for the three months ended 30 June 2011 was approximately RMB32.6 million, represented a relatively steady level as compared to approximately RMB32.7 million for the three months ended 31 March 2011.

Mobile Internet business

The mobile Internet business revenue for the three months ended 30 June 2011 was approximately RMB9.4 million, representing an increase of approximately 54.8% as compared to approximately RMB6.1 million, which was previously classified as "Other income and gains", for the three months ended 31 March 2011. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to expanding of business networks; and (ii) the increase of mobile platforms revenue due to its increasing popularity.

Management Discussion and Analysis

(3) FINANCIAL REVIEW (Cont'd)

Cost of revenue

Cost of revenue for the three months ended 30 June 2011 was approximately RMB14.1 million, which represented a relatively steady level as compared to approximately RMB14.5 million for the three months ended 31 March 2011, which was mainly due to the positive result from the continuing actions taken on cost control.

Despite, the Group re-allocated the resources for the development of the mobile Internet business. The total cost of revenue of mobile Internet business for the three months ended 30 June 2011 and 31 March 2011 were approximately RMB1.0 million and approximately RMB0.5 million, respectively.

Gross profit

Our gross profit for the three months ended 30 June 2011 was approximately RMB170.2 million, representing an increase of approximately 19.7% as compared to approximately RMB142.2 million for the three months ended 31 March 2011.

The gross profit margin for the three months ended 30 June 2011 was approximately 92.3%, representing an increase of approximately 1.6% as compared with the three months ended 31 March 2011.

Other income and gains

Other income and gains for the three months ended 30 June 2011 were approximately RMB5.6 million, representing a decrease of approximately 43.8% as compared with the three months ended 31 March 2011. The decrease in other income and gains was mainly caused by the decrease of approximately RMB4.4 million in government grants which received by Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") and Fujian TQ Digital Inc. ("TQ Digital") from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳).

Meanwhile, as mentioned in the above paragraph headed "Revenue - Mobile Internet business", the income derived from mobile Internet business for the six months ended of 2011 had been re-classified as "Revenue", thus there did not have any comparative figures presented in other income and gains during the period under review.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2011 were approximately RMB34.4 million, representing an increase of approximately 36.0% as compared with the three months ended 31 March 2011. The increase in the amount of selling and marketing expenses was mainly due to the increase in advertising and promotion activities for releasing new Chinese expansion pack "Edge of Night" of Eudemons Online.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 June 2011, the number of operation and marketing staff in the mobile Internet business was 26, which was decreased by approximately 35.0% as compared with the number of staff as at 31 March 2011. The selling and marketing expenses of mobile Internet business for the three months ended 30 June 2011 and 31 March 2011 were approximately RMB1.4 million and approximately RMB0.5 million, respectively.

(3) FINANCIAL REVIEW (Cont'd)

Administrative expenses

Administrative expenses increased by approximately 4.9% to approximately RMB48.9 million for the three months ended 30 June 2011 as compared with the three months ended 31 March 2011, which was mainly due to (i) the rise in exchange loss resulted from appreciation of RMB against USD and HKD; and (ii) the increase in outsourced repair and maintenance expenses.

Besides that, the Group re-allocated the resources for the mobile Internet business, integrated application development and other new business divisions. As at 30 June 2011, the total number of accounting, finance and general administration staff in the mobile Internet business, integrated application development and other new business divisions was 24, which was increased by approximately 1,100.0% as compared with the number of staff as at 31 March 2011. The total administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 30 June 2011 and 31 March 2011 were approximately RMB5.3 million and approximately RMB3.2 million, respectively.

Development costs

Development costs decreased by approximately 13.7% to approximately RMB35.0 million for the three months ended 30 June 2011 as compared with the three months ended 31 March 2011. The decrease in the amount of development costs was mainly caused by the positive result from continuing actions taken on cost control.

Despite, the Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 30 June 2011, the total number of research and development staff in the mobile Internet business and integrated application development was 268, which was maintained at a steady level as compared with the number of staff as at 31 March 2011. The total development costs of mobile Internet business and integrated application development for the three months ended 30 June 2011 and 31 March 2011 were approximately RMB6.1 million and approximately RMB5.9 million, respectively.

Other expenses

Other expenses for the three months ended 30 June 2011 were approximately RMB0.8 million, which represented a decrease of approximately 59.3% as compared with the three months ended 31 March 2011. The decrease in the amounts of other expenses was mainly caused by no donation made during the period under review.

Taxation

Taxation for the three months ended 30 June 2011 was approximately RMB13.6 million, which raised by approximately 342.0% as compared with the three months ended 31 March 2011. The increase as compared with the three months ended 31 March 2011 was mainly due to (i) growth in profit before tax as well as an increase in revenue recognised; and (ii) withholding tax for proposed interim dividend declared for the six months ended 30 June 2011.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2011 was approximately RMB42.9 million, representing an increase of approximately RMB8.3 million as compared with approximately RMB34.6 million for the three months ended 31 March 2011.

Management Discussion and Analysis

(3) FINANCIAL REVIEW (Cont'd)

Second Quarter of 2011 Compared to Second Quarter of 2010

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

	Three months ended	
	30 June 2011 (Unaudited) RMB'000	30 June 2010 (Unaudited) RMB'000
Revenue	184,304	120,120
Cost of revenue	(14,109)	(16,630)
Gross profit	170,195	103,490
Other income and gains	5,572	9,286
Selling and marketing expenses	(34,435)	(26,630)
Administrative expenses	(48,875)	(42,004)
Development costs	(35,025)	(35,638)
Other expenses	(768)	(2,532)
Share of loss of an associate	(77)	—
Profit before taxation	56,587	5,972
Taxation	(13,617)	(4,468)
Profit for the period	42,970	1,504
Profit for the period attributable to:		
- Owners of the Company	42,917	1,548
- Non-controlling interests	53	(44)
	42,970	1,504

(3) FINANCIAL REVIEW (Cont'd)

Revenue

Revenue for the three months ended 30 June 2011 was approximately RMB184.3 million, representing an increase of approximately 53.4% as compared to approximately RMB120.1 million for the three months ended 30 June 2010.

Online game

Our online game revenue for the three months ended 30 June 2011 was approximately RMB174.9 million, representing an increase of approximately 45.6% as compared to approximately RMB120.1 million for the three months ended 30 June 2010.

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

	Three months ended		30 June 2010	
	30 June 2011			
	RMB'000	% of online game revenue	RMB'000	% of online game revenue
PRC	142,283	81.4	93,760	78.1
Overseas	32,580	18.6	26,360	21.9
	<u>174,863</u>	<u>100.0</u>	<u>120,120</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 June 2011 was approximately RMB142.3 million, representing an increase of approximately 51.8% as compared to approximately RMB93.8 million for the three months ended 30 June 2010. The increase in online game revenue derived from the PRC was mainly due to the release of diversified versions of Eudemons Online in the fourth quarter of 2010 and new Chinese expansion pack "Edge of Night" of Eudemons Online in April 2011, which resulted in enhancing the attractiveness of the game.

The online game revenue derived from overseas markets for the three months ended 30 June 2011 amounted to approximately RMB32.6 million, representing an increase of approximately 23.6% as compared with that of approximately RMB26.3 million for the three months ended 30 June 2010. The increase in online game revenue derived from overseas markets was mainly due to the release of new expansion pack for Conquer Online in various languages starting from the first quarter of 2011.

Mobile Internet business

The mobile Internet business revenue for the three months ended 30 June 2011 was approximately RMB9.4 million, representing an increase of approximately 2,158.6% as compared to approximately RMB0.4 million, which was previously classified as "Other income and gains", for the three months ended 30 June 2010. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to expanding of business networks; and (ii) the increase of mobile platforms revenue due to its increasing popularity.

Management Discussion and Analysis

(3) FINANCIAL REVIEW (Cont'd)

Cost of revenue

Cost of revenue for the three months ended 30 June 2011 decreased by approximately 15.2% to approximately RMB14.1 million as compared with that of approximately RMB16.6 million for the three months ended 30 June 2010. The decrease in cost of revenue was caused by the positive result from the continuing actions taken on cost control.

Despite, the Group re-allocated the resources for the development of the mobile Internet business. The total cost of revenue of mobile Internet business for the three months ended 30 June 2011 and 30 June 2010 were approximately RMB1.0 million and approximately RMB0.1 million, respectively.

Gross profit

Our gross profit for the three months ended 30 June 2011 was approximately RMB170.2 million, representing an increase of approximately 64.5% as compared to approximately RMB103.5 million for the three months ended 30 June 2010.

However, the gross profit margin for the three months ended 30 June 2011 was approximately 92.3%, which represented an increase of approximately 6.2% as compared with the three months ended 30 June 2010.

Other income and gains

Other income and gains for the three months ended 30 June 2011 decreased by approximately 40.0% to approximately RMB5.6 million as compared with the three months ended 30 June 2010. The decrease in other income and gains was mainly caused by decrease of gain on the disposal of interests in jointly controlled entities.

Moreover, as mentioned in the above paragraph headed "Revenue - Mobile Internet business", the income derived from mobile Internet business for 2011 has been re-classified as "Revenue", thus there did not have any comparative figures presented in other income and gains during the period under review. Except for the effect of reclassification of mobile Internet business income, the other income and gains for the three months ended 30 June 2010 was approximately RMB8.9 million. Other income and gains for the three months ended 30 June 2011 decreased by approximately 37.2% to approximately RMB5.6 million as compared with the three months ended 30 June 2010.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2011 increased by approximately 29.3% to approximately RMB34.4 million as compared with the three months ended 30 June 2010. The increase in selling and marketing expenses was mainly due to the increase in advertising and promotion activities for releasing new Chinese expansion pack "Edge of Night" of Eudemons Online.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 June 2011, the number of operation and marketing staff in the mobile Internet business was 26, which was increased by approximately 44.4%, as compared with the number of staff as at 30 June 2010. The selling and marketing expenses of mobile Internet business for the three months ended 30 June 2011 and 30 June 2010 were approximately RMB1.4 million and approximately RMB0.4 million, respectively.

(3) FINANCIAL REVIEW (Cont'd)

Administrative expenses

Administrative expenses increased by approximately 16.4% to approximately RMB48.9 million for the three months ended 30 June 2011 as compared with the three months ended 30 June 2010. The increase in administrative expenses was mainly due to (i) the rise in exchange loss resulted from appreciation of RMB against USD and HKD; and (ii) the increase in outsourced repair and maintenance expenses.

Besides that, the Group re-allocated the resources for the mobile Internet business, integrated application development and other new business divisions. As at 30 June 2011, the total number of accounting, finance and general administration staff in the mobile Internet business, integrated application development and other new business divisions was 24, which was decreased by approximately 52.9% as compared with the number of staff as at 30 June 2010. The administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 30 June 2011 and 30 June 2010 were approximately RMB5.3 million and approximately RMB1.9 million, respectively.

Development costs

Development costs decreased by approximately 1.7% to approximately RMB35.0 million for the three months ended 30 June 2011 as compared with the three months ended 30 June 2010. The number of staff in our development team decreased to 1,364 as at 30 June 2011 from 1,449 as at 30 June 2010. The amount of development costs maintained at a steady level as compared with the three months ended 30 June 2010, which was mainly due to the net effect of (i) the increase in co-operation with outside service companies for design and development; and (ii) the decrease in staff costs as the result of implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report.

Despite, the Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 30 June 2011, the total number of research and development staff in the mobile Internet business and integrated application development was 268, which was increased by approximately 1.9% as compared with the number of staff as at 30 June 2010. The total development costs of mobile Internet business and integrated application development for the three months ended 30 June 2011 and 30 June 2010 were approximately RMB6.1 million and approximately RMB7.1 million, respectively.

Other expenses

Other expenses for the three months ended 30 June 2011 were approximately RMB0.8 million, which represented a decrease of approximately 69.7% as compared with the three months ended 30 June 2010. The decrease in the amounts of other expenses was mainly caused by no donation made during the period under review.

Management Discussion and Analysis

(3) FINANCIAL REVIEW (Cont'd)

Taxation

Taxation for the three months ended 30 June 2011 rose by approximately 204.8% as compared with the three months ended 30 June 2010. The increase as compared with the three months ended 30 June 2010 was mainly due to (i) growth in profit before tax as well as an increase in revenue recognised; and (ii) withholding tax for proposed interim dividend declared for the six months ended 30 June 2011.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2011 was approximately RMB42.9 million, representing an increase of approximately RMB41.4 million as compared with approximately RMB1.5 million for the three months ended 30 June 2010.

(4) BUSINESS REVIEW

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

Complying with the business growth momentum of mobile Internet industry in the PRC, the Group has continued its focus on developing its mobile Internet business as another source of business growth in addition to online games.

(4) BUSINESS REVIEW (Cont'd)

Development and licensing of existing games

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

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

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

In respect of self-operated online games, we have launched the expansion pack "The Returning Light" for Conquer Online in French, Spanish and Arabian in the first quarter of 2011. In 2011, the Conquer Online has also been launched in Turkish version in Turkey, Germany, Azerbaijan and Cyprus and Traditional Chinese version in Taiwan, respectively. The Group has also launched different English version expansion pack in June 2011 such as "Phoenix Returns"* (鳳凰歸來) for Heroes of Might and Magic Online, "Edge of Night" for Eudemons Online and "Andromeda Crisis" for Zero Online. We expected the offer of additional in-game items and premium features to bolster the popularity of its online games.

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

Games in the pipeline

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

Starting from 2010, the Group has carried out three closed beta testings for its first 3D MMORPG, Dungeon Keeper Online (previously named as World of Dungeon Keeper), the development of this game was the first cooperation arrangement between the Group and Electronic Arts Inc. The game has undergone improvement and an open beta is expected to be carried out in the second half of 2011.

* For identification purpose only

Management Discussion and Analysis

(4) BUSINESS REVIEW (Cont'd)

Mobile Internet Business

During the period under review, the mobile Internet business becomes an important business within the Group, and the proposed spin-off of its mobile Internet business helps the Group to maximize the potential value. Besides, with continuous effort put into the research and development and promotion of self-developed software products and games for famous smart-phones as well as the increasing revenue from advertisements, mobile games and online shops, the strategic importance of the Group's mobile Internet business has further increased. It becomes a key project in the future business development of the Group.

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

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

In line with the development of business model in the mobile Internet application industry, the Group has strived for establishing a platform-based operation model by integrating its research and development, operations and payment channels. The Group will focus on the developing mobile Internet market in the PRC by providing full support to the business development and innovation of Internet applications, contents and services for the domestic and foreign small and medium enterprises and individual developers. The Group has also strengthened the content of mobile platform through cooperation in development with other mobile Internet enterprises.

In April 2011, the Group entered a strategic cooperation with DeNA Co., Ltd., a globally renowned mobile Internet enterprise, which operates Mobage, Japan's largest social gaming platform. The cooperation involves sharing mobile game development resources and distribution platforms. We believe this strategic cooperation will strengthen the leadership positions of each smart-phone platform in respective home and markets abroad.

As of 30 June 2011, the mobile Internet business of the Group had 232 employees, representing approximately 10.8% 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 have driven the Group to focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 30 June 2011, the Group's overall staff headcount was 2,139, of which 1,364 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, online and mobile games upgrades and software and applications upgrades to accommodate the latest player preferences and satisfy emerging market trends.

(4) BUSINESS REVIEW (Cont'd)

Corporate Milestones and Awards in the first half of 2011

Year 2011	Corporate Milestone/Recognitions	Products Milestone/Awards
Jan		<ul style="list-style-type: none"> Eudemons Online was awarded the "Award for Overseas Development of Chinese Domestic Games for 2010"* (「2010 年度中國民族遊戲海外拓展獎」) by "China Game Industry Annual Conference 2010"* (「2010 年度中國遊戲產業年會」)
Mar	<ul style="list-style-type: none"> NetDragon (Fujian) was awarded the "Advanced Publisher Award of the Second Session of the Chinese Government Award for Publishing"* (「第二屆中國出版政府獎先進出版單位獎」) by General Administration of Press and Publication of the People's Republic of China 	
May	<ul style="list-style-type: none"> NetDragon was awarded the "Outstanding Cross-strait Brand"* (「海峽傑出品牌」) at the "First Cross-strait (International) Brand Culture Festival"* (「首屆海峽(國際)品牌文化節」) 	
Jun	<ul style="list-style-type: none"> TQ Digital was awarded: <ul style="list-style-type: none"> — "Innovative Product Award"* (「創新產品獎」) of the software and information service industry of China for 2010-2011; — "Outstanding Contribution Award"* (「突出貢獻獎」) of the software and information service industry of China for 2010-2011 <p>by "the Ninth China International Software & Information Service Fair"* (「第九屆中國國際軟件和信息服務交易會」)</p>	

* For identification purpose only

Management Discussion and Analysis

(5) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2011, we had bank deposits, bank balances and cash of approximately RMB1,279.6 million as compared with approximately RMB1,218.7 million as at 31 December 2010.

As at 30 June 2011, the Group had net current assets of approximately RMB1,226.4 million as compared with approximately RMB1,178.3 million as at 31 December 2010.

(6) FOREIGN CURRENCY RISKS

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

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

(7) CREDIT RISKS

As at 30 June 2011, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

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

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

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

(8) STAFF INFORMATION

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

	At 30 June 2011	At 31 March 2011	At 30 June 2010
Research and development	1,364	1,496	1,449
Operation and marketing	461	368	525
Accounting, finance and general administration	314	241	372
Total	2,139	2,105	2,346

As at 30 June 2011, we had a total of 2,139 employees (31 March 2011 and 30 June 2010: 2,105 and 2,346, respectively), 790 of which were game developers of the research and development department, represented approximately 36.9% of the total number of staff.

The following table sets out the breakdown of the number of mobile Internet business employees of the Group for periods indicated below:

	At 30 June 2011	At 31 March 2011	At 30 June 2010
Research and development	188	163	144
Operation and marketing	26	40	18
Accounting, finance and general administration	18	—	—
Total	232	203	162

The number of employees of integrated application development and other business divisions as at 30 June 2011 under research and development was 80 (31 March 2011 and 30 June 2010: 77 and 119, respectively).

The number of employees of integrated application development and other business divisions as at 30 June 2011 under accounting, finance and general administration was 6 (31 March 2011 and 30 June 2010: 2 and 51, respectively).

After three years' expansion of the Group, we have slowed down recruitment by the implementation of talent optimization project as mentioned in the section of "Corporate Culture and Social Responsibilities" of the 2009 annual report, which can be shown from the headcounts as of 30 June 2011, 31 March 2011 and 30 June 2010.

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

Management Discussion and Analysis

(9) PERFORMANCE EVALUATION

As at the first half of 2011, it has been more than a year since the Group announced the Monthly Performance Evaluation Measures for Staff* (全員月度績效考核實施辦法) in the first half of 2010. The performance evaluation has 100.0% covered within the Group and 99.0% of our departments took part in the monthly performance evaluation. The performance evaluation has become an integral part to manage each department of the Group. In order to achieve the goal of minimising the cost of operation and enhancing the efficiency, performance evaluation criteria of each department and staff continued to be optimized with equal weigh between the evaluation procedures and results, and the monthly evaluation results were closely linked with the annual performance evaluation. Throughout the performance evaluation, our staff indentified their defects on work and kept on improving, and the department heads identified and selected elites with outstanding performances to establish a talent back-up team. Moreover, each department of the Group formulated annual goals and improved evaluation targets, and assigned specific annual targets to each employee so as to guarantee the achievement of department goals. Our human resource department developed a more rational remuneration system by clarifying the job description and standardizing the key performance indicators of each position.

(10) STAFF TRAINING

Introduction to NetDragon University

NetDragon University is the base for training management talents and skilled technicians, which provides great support and plays an important role in the overall strategic development of the Group. NetDragon University devotes to providing professional and systematic training services to staff members of the Group. Through an effective learning environment, the Group developed teams of high standard technical and managerial talents and continued to strengthen the core competitiveness of the Group.

Results for the first half of 2011

During the first half of 2011, NetDragon University achieved outstanding performances in supporting product development, applying advanced management, promoting share of technical skills, cultivating corporate culture and encouraging online study.

For supporting product development, in order to create high-valued products for the Group, product designers were assisted to keep abreast of the systematic theory and methods for product design and marketing by better analysing product competitiveness and market position, and specific product development strategy was formulated and project management procedures were standardized and adjusted to ensure effective implementation. The first phase of the product innovation project was organized successfully. 12 training courses were held with a total of 2,433.5 training hours and 722 participants.

* For identification purpose only

(10) STAFF TRAINING (Cont'd)

Results for the first half of 2011 (Cont'd)

In respect of applying advanced management, the universal management training plan of the Group implemented in 2010 was reformed and specific management plans were tailored for each department in accordance with their practical situation. Training programmes of enhancing management for middle-level management members were formulated, and related resources allocation and programme development were also completed. These programmes will be held in the second half of the year.

For the training of technical skills, in order to improve the training capability of part-time departmental lecturers of technology enhancement programmes, 6 training courses for lecturers were conducted with 104 participants. Design of advanced professional courses was also completed.

In respect of cultivating corporate culture, management principles of the Group were effectively promoted by collecting, analysing, sharing and discussing of internal management cases through various channels. Depth first-hand courses were tailor-made for each department to enhance team spirit and encourage staff members to confront with future challenges. Series of programmes were developed for team-building of core projects of the Group, which served as solid foundation for the team spirit development of core project teams. Courses on general skills and team work were developed to enhance the professional accomplishment of our staff members.

6 quality online courses were launched and 643 studying videos were uploaded for sharing, and promotion activities were carried out through the online study platform for activities including the Competition of EXCEL Application* (EXCEL 技能大賽), developing a good internal environment for online self-study within the Group.

Expected results for the second half of 2011

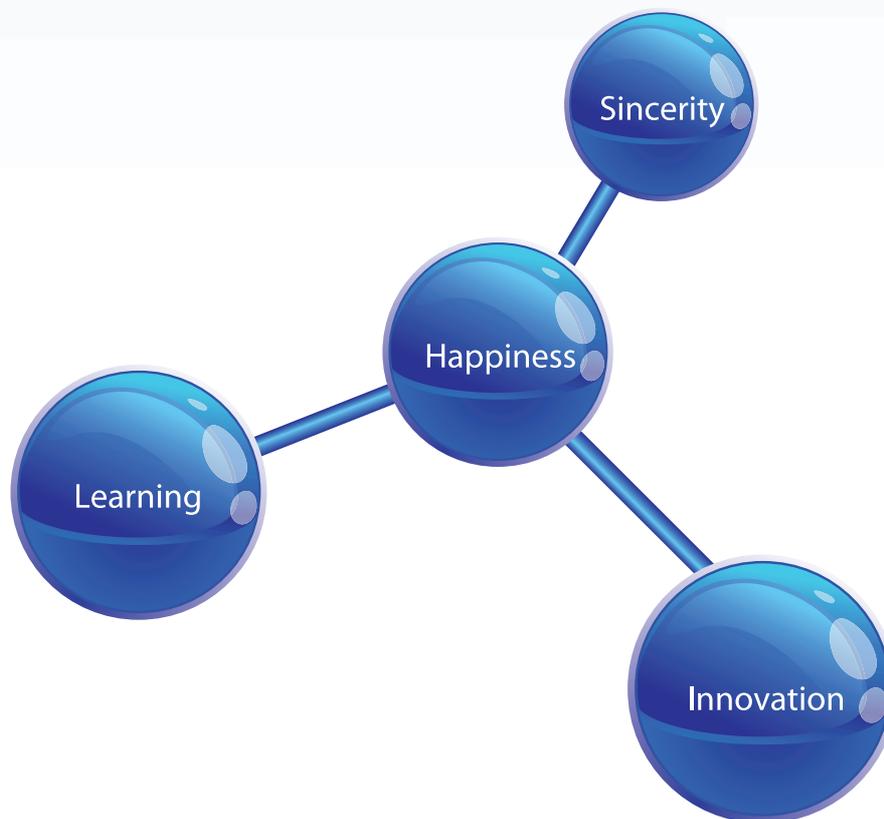
In the second half of 2011, the second phase of product innovation project will commence to facilitate more game designers to create high value-added products for the Group, and a study group of practical plans and case analysis will be held. The Dragon Promotion Project* (飛龍提高項目) for middle-level management members will commence, which is expected to contribute to the further improvement of their leadership ability. Advanced professional training for departmental technical lecturers and the "2+1" mentorship and certification system will be organized for the sharing and development of technical skills among different departments. The tailor-made training courses under the Buddies Programme* (兄弟連) for core project teams will be commenced to improve the communication and cooperation among team members and enhance their team spirit. The E-Learning online study platform will be entered into its second development stage and improved in accordance with its performance over the past year in order to encourage the effectiveness of online training environment and improve the efficiency of operation of training.

* For identification purpose only

Management Discussion and Analysis

(11) CORPORATE CULTURE

The DNA of the Group'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", the Group 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 the Group's corporate culture and cultural DNA of everyone in the Group.

Happiness

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

(11) CORPORATE CULTURE (Cont'd)

Learning

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

Innovation

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

Sincerity

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

(12) PROSPECTS AND OUTLOOK

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 online games to expand its product lines, the Group will continue to update the content for its online games and provide diversified online game versions to extend the life span of its products. As such, the Group's revenue base can be maximised.

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

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

Management Discussion and Analysis

(12) PROSPECTS AND OUTLOOK (Cont'd)

Online Games

MMORPGs

The Group will continue to invest in the development of new MMORPGs, which are creative and have 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 spring 2012 in the PRC as well as other select markets in Asia, MENA and Russia/CIS.

Dungeon Keeper Online

Since 2010, the Group has carried out three closed beta testings for Dungeon Keeper Online. The open beta is expected to be carried out in the second half of 2011.

Other Online Games

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

icombo (都市快打)*

icombo (previously 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 will be carried out in 2011.

Absolute Force (絕對火力)*

The first self-developed first-person role-playing shooting game of the Group which is set against the background of modern anti-terrorism war, carries features of realistic graphic designs and a wide range of virtual guns, and enrich its visual impact and operation system by applying the 3D character animation. This game enables players to experience unprecedented excitement in the true-to-life virtual game world. We expect that a closed beta testing will be carried out in 2011.

* For identification purpose only

(12) PROSPECTS AND OUTLOOK (Cont'd)

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 users with more user-friendly product experience and cater their needs to strengthen their loyalty. In addition, the Group will promote a 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.

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

On 30 May 2011, a share purchase agreement (the "Share Purchase Agreement") was entered into between 91 Limited, an indirect wholly-owned subsidiary of the Company, and investors who are connected persons of the Company and had advanced 91 Limited an aggregate amount of USD1,500,000 of the loan as of 30 May 2011 (the "Investor Indebtedness"), which was unsecured, non-interest bearing and repayable on demand, for the issue and sale of 15,384,000 preferred shares of 91 Limited at a consideration of USD3,999,840. The preferred shares account for approximately 17.9% of the share capital of 91 Limited upon the full conversion of the preferred shares. The holders of the preferred shares have the right to convert the preferred shares to ordinary shares at the conversion price of USD0.26 upon a qualified initial public offering or the receipt of notice for conversion from 91 Limited. 91 Limited has the right to redeem all preferred shares at the redemption price of USD0.26 per preferred share plus cumulative rate of return of 5.0% per annum and any declared but unpaid dividends on the preferred shares after receipt of written request signed by the holders of at least two-third of the preferred shares at any time after the fifth but not later than the tenth anniversary of the issuance date of preferred shares.

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

All conditions precedent under the Share Purchase Agreement have been fulfilled or waived and the closing of the Share Purchase Agreement (the "Closing") took place on 13 August 2011. 91 Limited issued and sold to the investors 15,384,000 preferred shares and the Investor Indebtedness was utilized to partially set off the consideration payable by the investors for such issuance of preferred shares under the Share Purchase Agreement.

Further details of the Share Purchase Agreement and the Closing are set out in the announcements of the Company dated 30 May 2011 and 15 August 2011, respectively.

Management Discussion and Analysis

(12) PROSPECTS AND OUTLOOK (Cont'd)

Conclusion

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

There has been a surge in the number of online game products which resulted in a higher market expectation on quality online 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 online games by regulating the development process of various online game projects in 2011. It will also carry out initiatives to optimize the perspectives and planning of market forecast at the early development stage, identify development targets for each version of online 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 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 important source of growth apart from its online games.

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

In 2010, the Group had actively participated in the Project, a major development project for the construction of Haixi District implemented by the PRC government and arranged by the government of the Changle City of Fuzhou in Fujian Province.

The Group acquired a parcel of land (the "Owned Land") and buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC (the "Property") in 2010.



Day view of the Project - Preview of the artificial design (subject to modification)

Management Discussion and Analysis

(12) PROSPECTS AND OUTLOOK (Cont'd)

Other Events

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

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

(13) INTERIM DIVIDEND

On the date of this report, the board of the Directors (the "Board") has resolved to declare an interim dividend of HKD0.10 per share for the six months ended 30 June 2011 (six months ended 30 June 2010: HKD0.05 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 8 September 2011. It is expected that the interim dividend will be distributed on or about 15 September 2011.

(14) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 9 September 2011 to Monday, 12 September 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2011, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 8 September 2011.



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

As at 30 June 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	272,636,220(L)	51.57%
Liu Dejian <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian <i>(Note 3)</i>	Shanghai Tiankun Digital Technology Ltd. ("NetDragon (Shanghai)")	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	272,436,220(L)	51.54%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%

OTHER INFORMATION

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

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Zheng Hui <i>(Note 2)</i>	The Company	Through controlled corporations	271,036,220(L)	51.27%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan <i>(Note 4)</i>	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%

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

Notes:

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.40% of the issued share capital of DJM Holding Ltd., which in turn is interested in 35.20% 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 35.20% and 4.85%, 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 has 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 51.27% 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 Hongzhan had been awarded 1,600,000 shares of the Company on 7 December 2009, which represent 0.30% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.74% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2011, none of the Directors and chief executives 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.

OTHER INFORMATION

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

So far as is known to the Directors, as at 30 June 2011, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	35.20%
Fitter Property Inc.	The Company	Beneficial owner	25,660,400(L)	4.85%
Eagle World International Inc. <i>(Note 2)</i>	The Company	Beneficial owner	32,952,920(L)	6.23%
Flowson Company Limited <i>(Note 2)</i>	The Company	Through a controlled corporation	32,952,920(L)	6.23%
IDG Group <i>(Note 3)</i>	The Company	Beneficial owner	78,333,320(L)	14.83%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

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

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the British Virgin Islands with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.23% of the issued share capital of the Company through its shareholding in Eagle World International Inc..
3. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.06%, 9.84%, 2.01% and 0.92%, respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships are as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Patrick J. McGovern.
 - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Patrick J. McGovern.
 - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by James W. Breyer.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 June 2011.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2011, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

OTHER INFORMATION

SHARE OPTION SCHEME

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

Details of the share options outstanding and movement during the six months ended 30 June 2011 are as follows:

Grantee	Date of grant	Exercise Price (HKD)	As at	Number of share options			As at
			01.01.2011	Granted	Exercised	Lapsed	30.06.2011
Executive Directors							
Liu Dejian	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	28.04.2011	4.80	—	284,000	—	284,000	—
Liu Luyuan	07.12.2009	4.33	1,400,000	—	—	—	1,400,000
	28.04.2011	4.80	—	284,000	—	284,000	—
Zheng Hui	28.04.2011	4.80	—	284,000	—	284,000	—
Chen Hongzhan	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	28.04.2011	4.80	—	284,000	—	284,000	—
Independent non-executive Directors							
Chao Guowei, Charles	28.04.2011	4.80	—	400,000	—	400,000	—
Lee Kwan Hung	28.04.2011	4.80	—	400,000	—	400,000	—
Liu Sai Keung, Thomas	28.04.2011	4.80	—	400,000	—	400,000	—
Others							
Employees	07.12.2009	4.33	2,200,000	—	—	—	2,200,000
	28.04.2011	4.80	—	13,754,900	—	241,000	13,513,900
Total			<u>6,800,000</u>	<u>16,090,900</u>	<u>—</u>	<u>2,577,000</u>	<u>20,313,900</u>

Notes:

- On 28 April 2011, 16,090,900 share options were granted to the Directors and employees of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 28 April 2011 (the trading day immediately before the grant of the share options) was HKD4.80.
- During the period under review, no share options were exercised by any Directors or chief executives of the Company.

SHARE AWARD SCHEME

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

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

As at 30 June 2011, total awarded amount (the "Awarded Amount") of HKD16,094,000 was awarded to a number of selected employees. The awarded shares, which purchased with the Awarded Amount and allocated by the Trustee from the total number of shares purchased by the Trustee on the market out of cash paid by the Company, will be transferred to the selected employees at nil consideration upon vesting between 6 November 2008 and 6 November 2012, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2011.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have complied with the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2011.

INTERNAL CONTROLS

The Board has engaged an independent external professional firm to conduct an interim review of the effectiveness of its internal control systems covering all material controls, including financial operational and compliance controls as well as risk management functions for the period under review.

OTHER INFORMATION

AUDIT COMMITTEE

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

The Group's interim results for the six months ended 30 June 2011 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

Hong Kong, 25 August 2011



Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT INC.

(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 40 to 58, which comprises the condensed consolidated statement of financial position of NetDragon Websoft Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2011, and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 August 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Six months ended 30 June	
	<i>NOTES</i>	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Revenue	4	341,059	259,596
Cost of revenue		(28,652)	(35,347)
Gross profit		312,407	224,249
Other income and gains	4	15,484	14,946
Selling and marketing expenses		(59,753)	(48,827)
Administrative expenses		(95,466)	(84,180)
Development costs		(75,602)	(75,377)
Other expenses		(2,653)	(3,460)
Share of loss of an associate		(77)	—
Profit before taxation		94,340	27,351
Taxation	6	(16,698)	(4,678)
Profit for the period	7	77,642	22,673
Other comprehensive (expense) income:			
Exchange differences arising on translation of foreign operations		(547)	28
Total comprehensive income for the period		77,095	22,701
Profit for the period attributable to:			
– Owners of the Company		77,529	22,763
– Non-controlling interests		113	(90)
		77,642	22,673
Total comprehensive income attributable to:			
– Owners of the Company		76,982	22,791
– Non-controlling interests		113	(90)
		77,095	22,701
		RMB cents	RMB cents
Earnings per share	9		
– Basic		14.72	4.33
– Diluted		14.72	4.33

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	NOTES	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	148,839	128,534
Prepaid lease payments		87,195	87,753
Investment property	10	15,801	14,551
Deposit paid for acquisition of property, plant and equipment		19,050	19,050
Intangible assets		10,673	13,136
Interest in an associate	11	2,423	—
Available-for-sale investments		4,000	4,000
Loan receivables		7,890	5,819
Deferred tax assets		54	54
		295,925	272,897
Current assets			
Prepaid lease payments		1,784	1,784
Loan receivables		361	893
Trade receivables	12	28,977	24,393
Other receivables, prepayments and deposits		45,699	40,072
Held for trading investments		—	1,079
Amount due from a related company	13	832	171
Bank deposits		220,000	340,828
Bank balances and cash		1,059,602	877,823
		1,357,255	1,287,043



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	NOTE	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Current liabilities			
Trade payables	14	1,094	519
Other payables and accruals		68,386	58,218
Deferred income		24,130	23,119
Amount due to a shareholder		9,748	5,328
Amount due to a related company		182	—
Income tax payable		27,328	21,599
		<u>130,868</u>	<u>108,783</u>
Net current assets			
		<u>1,226,387</u>	<u>1,178,260</u>
		<u>1,522,312</u>	<u>1,451,157</u>
Capital and reserves			
Share capital		39,264	39,264
Share premium and reserves		1,483,475	1,412,433
		<u>1,522,739</u>	<u>1,451,697</u>
Equity attributable to owners of the Company		(427)	(540)
Non-controlling interests		<u>1,522,312</u>	<u>1,451,157</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

Attributable to owners of the Company

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Dividend reserve RMB'000	Revaluation reserve RMB'000	Treasury share reserve RMB'000	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 2010	39,264	1,157,364	1,963	9,946	114,642	23,270	—	(10,757)	4,641	(56,491)	172,463	1,456,305	(484)	1,455,821
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	22,763	22,763	(90)	22,673
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	28	—	28	—	28
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	28	22,763	22,791	(90)	22,701
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	3,134	—	—	3,134	—	3,134
Final dividend for 2009 paid	—	—	—	—	—	(23,270)	—	—	—	—	—	(23,270)	—	(23,270)
Interim dividend for 2010	—	—	—	—	—	23,056	—	—	—	—	(23,056)	—	—	—
Transfer	—	—	—	—	17	—	—	—	—	—	(17)	—	—	—
At 30 June 2010 (unaudited)	<u>39,264</u>	<u>1,157,364</u>	<u>1,963</u>	<u>9,946</u>	<u>114,659</u>	<u>23,056</u>	<u>—</u>	<u>(10,757)</u>	<u>7,775</u>	<u>(56,463)</u>	<u>172,153</u>	<u>1,458,960</u>	<u>(574)</u>	<u>1,458,386</u>
At 1 January 2011	39,264	1,157,364	1,963	9,946	121,339	8,994	673	(8,494)	9,539	(56,663)	167,772	1,451,697	(540)	1,451,157
Profit for the period	—	—	—	—	—	—	—	—	—	—	77,529	77,529	113	77,642
Other comprehensive expenses for the period	—	—	—	—	—	—	—	—	—	(547)	—	(547)	—	(547)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	(547)	77,529	76,982	113	77,095
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	3,054	—	—	3,054	—	3,054
Final dividend for 2010 paid	—	—	—	—	—	(8,994)	—	—	—	—	—	(8,994)	—	(8,994)
Interim dividend for 2011	—	—	—	—	—	43,957	—	—	—	—	(43,957)	—	—	—
At 30 June 2011 (unaudited)	<u>39,264</u>	<u>1,157,364</u>	<u>1,963</u>	<u>9,946</u>	<u>121,339</u>	<u>43,957</u>	<u>673</u>	<u>(8,494)</u>	<u>12,593</u>	<u>(57,210)</u>	<u>201,344</u>	<u>1,522,739</u>	<u>(427)</u>	<u>1,522,312</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
NET CASH FROM OPERATING ACTIVITIES	<u>120,127</u>	<u>26,473</u>
INVESTING ACTIVITIES:		
Acquisition of assets through acquisition of a subsidiary	—	(58,149)
Proceeds from disposal of interests in jointly controlled entities	—	4,000
Acquisition of an associate	(2,500)	—
Purchase of property, plant and equipment	(40,933)	(17,078)
Decrease in bank deposits	120,828	252,327
Other investing cash flows	(6,780)	9,160
NET CASH FROM INVESTING ACTIVITIES	<u>70,615</u>	<u>190,260</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(8,994)</u>	<u>(23,270)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	181,748	193,463
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	877,823	705,053
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>31</u>	<u>389</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u><u>1,059,602</u></u>	<u><u>898,905</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and the methods of computation used in the condensed consolidated financial information for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described below.

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

The application of the new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial information.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date of the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive income ¹
HKAS 19 (Revised 2011)	Employee Benefits ²
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosures of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKFRS 27 (as revised in 2011)	Separate Financial Statements ²
HKFRS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²

¹ Effective for annual periods beginning on or after 1 July 2012

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

The five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013.

The directors of the Company anticipate that the application of the new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

4. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Revenue		
Online game revenue	325,519	259,596
Mobile Internet business revenue <i>(Note a)</i>	15,540	—
	341,059	259,596
Other income and gains		
Advertising income	—	368
Gain on fair value changes of investment property	1,597	—
Gain on disposal of jointly controlled entities	—	4,000
Government grants <i>(Note b)</i>	4,371	1,110
Interest income	7,319	5,771
Net gain on held for trading investments	290	1,706
Mobile Internet business income <i>(Note a)</i>	—	1,143
Rental income, net of RMB600 outgoings (2010: Nil)	154	—
Others	1,753	848
	15,484	14,946

Notes:

- (a) For the period ended 30 June 2011, the management considered that income derived from the mobile Internet business constituted revenue from one of the Group's principal activities due to the rapid expansion of the mobile Internet business during the period. Therefore, the mobile Internet business income has been recorded as revenue for the period ended 30 June 2011 whereas it had been classified as other income and gains for the period ended 30 June 2010.
- (b) Government grants were received from the government of the People's Republic of China (the "PRC") for subsidising the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to software or technology development. There are no unfulfilled conditions or contingencies relating to the grants.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

5. SEGMENT INFORMATION

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

In the past, there was only one business component in the internal reporting to the CODM, which is the online game development and operation and marketing of those online games. During the six months ended 30 June 2011, the Group was engaged into two operating segments, Online game and Mobile Internet business. The CODM considered that it is the best interests to the shareholders of the Company to assess the operating results of the Group in terms of resource allocation and performance assessment by operating segments which are Online game and Mobile Internet business. The comparative figures have been restated as a result of the change of segment information presented. This is the basis upon which the Group is organised.

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

Six months ended 30 June 2011

	Online game (Unaudited) RMB'000	Mobile Internet business (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	325,519	15,540	341,059
Segment profit (loss)	112,623	(2,963)	109,660
Unallocated income and gains			11,113
Unallocated expenses			(26,356)
Share of loss of an associate			(77)
Profit before taxation			94,340

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

5. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2010

	Online game (Unaudited) <i>RMB'000</i>	Mobile Internet business (Unaudited) <i>RMB'000</i>	Total (Unaudited) <i>RMB'000</i>
Segment revenue	259,596	1,143	260,739
Less: Classified as other income and gains			(1,143)
Consolidated total			259,596
Segment profit (loss)	47,759	(9,862)	37,897
Unallocated income and gains			12,693
Unallocated expenses			(23,239)
Profit before taxation			27,351

The CODM assesses segment profit or loss using a measure of operating profit whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, share of loss of an associate, income tax expenses, unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Online game	1,426,560	1,284,684
Mobile Internet business	24,530	5,755
Total segment assets	1,451,090	1,290,439
Unallocated	202,090	269,501
	1,653,180	1,559,940

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

6. TAXATION

	Six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
The charge comprises:		
Hong Kong Profits Tax	3,722	—
The PRC Enterprise Income Tax ("EIT")	12,915	4,625
Taxation in other jurisdictions	61	53
	<u>16,698</u>	<u>4,678</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2011. No provision for Hong Kong Profits Tax had been made for the six months ended 30 June 2010 as the Group's income neither arises in, nor is derived from, Hong Kong. During the period, a subsidiary incorporated in Hong Kong commenced to engage in the provision of online game operation and generated assessable profit which is subject to Hong Kong Profits Tax.

The PRC EIT is calculated at the applicable prevailing tax rates of 25% in the PRC except those technical service income derived from some subsidiaries, Fujian TQ Digital Inc., Fujian TQ Online Interactive Inc. and Shanghai Tiankun Digital Technology Limited, which are calculated at 12.5%. 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.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	2,488	2,923
Other staff costs		
Salaries and other benefits	107,971	107,377
Contributions to retirement benefits schemes	9,195	8,222
Share-based payments expense	2,051	1,094
	121,705	119,616
Amortisation of intangible assets (included in cost of revenue)	3,691	2,298
Amortisation of intangible assets (included in other expenses)	1,179	870
Release of prepaid lease payments (included in administrative expenses)	558	212
Depreciation of property, plant and equipment	19,785	26,282
Operating lease rentals in respect of:		
- rented premises	8,449	7,534
- computer equipment	14,354	19,793
Net foreign exchange loss	7,059	3,713
(Gain) loss on disposal of property, plant and equipment	(186)	367

8. DIVIDENDS

On 24 May 2011, a dividend of HKD0.02 per share (2010: HKD0.05 per share) was paid to shareholders as the final dividend for 2010. The aggregate amount of the final dividend declared and paid in current interim period amounted to approximately RMB8,994,000 (2010: RMB23,270,000).

The directors have determined that an interim dividend of HKD0.10 per share (2010: HKD0.05 per share) will be paid to the shareholders of the Company whose names appear in the register of members on 8 September 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Earnings for the purposes of basic and diluted earnings per share	<u>77,529</u>	<u>22,763</u>

	Number of shares Six months ended 30 June	
	2011 (Unaudited) '000	2010 (Unaudited) '000
Number of shares for the purposes of basic and diluted earnings per share (after adjusted the effect of unvested and treasury shares held under share award scheme)	<u>526,675</u>	<u>526,151</u>

The presentation of diluted earnings per share for the six months ended 30 June 2011 and 2010 had not taken into account the effect of potential shares under share option scheme because the exercise price of the Company's shares under the share option scheme was higher than the average market price of the shares for the six months ended 30 June 2011 and 2010.

10. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the period, the Group disposed of certain plant and machinery with a carrying amount of approximately RMB391,000 for cash proceeds of approximately RMB577,000, resulting in a gain on disposal of approximately RMB186,000 (2010: loss on disposal of approximately RMB367,000).

In addition, during the current period, the Group spent approximately RMB40,933,000 (2010: RMB32,143,000) for the acquisition of property, plant and equipment to expand its operations which mainly included approximately RMB6,169,000 (2010: RMB16,456,000) in leasehold improvements and approximately RMB31,123,000 (2010: RMB13,964,000) in construction in progress.

The Group's investment property as at 30 June 2011 were fair valued 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 was determined by reference to recent market prices for similar properties in the same locations and conditions. The resulting increase in fair value of investment property of approximately RMB1,597,000 has been recognised directly in profit or loss for the six months ended 30 June 2011 (2010: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

11. INTEREST IN AN ASSOCIATE

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Unlisted investments outside Hong Kong:		
Cost of investments	2,500	—
Share of post-acquisition losses	(77)	—
	2,423	—
Share of net assets - unlisted	2,423	—

As at 30 June 2011, the Group had interest in the following associate:

Name of entities	Percentage of registered capital directly held by the Group	Place of establishment/ operation	Registered capital	Principal activity
廈門易用軟件技術有限公司 (Xiamen EasySoft Technology Co., Ltd.)	50%	PRC	RMB3,000,000	Provision of business management software application development

12. TRADE RECEIVABLES

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
0 - 30 days	20,027	18,250
31 - 60 days	4,190	4,876
61 - 90 days	3,558	1,000
Over 90 days	1,202	267
	28,977	24,393

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

13. 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 30 June 2011 (Unaudited) RMB'000	Balance at 31 December 2010 (Audited) RMB'000	Maximum amount outstanding during the period (Unaudited) RMB'000
福州天亮網絡技術有限公司 Fuzhou Tianliang Network Technology Co., Limited ("Fuzhou Tianliang")	Unsecured, non-interest bearing and repayable on demand	832	171	1,041

Note:

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

14. TRADE PAYABLES

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
0 - 90 days	1,079	508
91 - 180 days	4	—
Over 365 days	11	11
	<u>1,094</u>	<u>519</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

15. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

Details of specific categories of options are as follows:

Batch 1:

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

Batch 2:

Date of grant	Vesting period	Exercise period	Number of share options at 30 June 2011
28 April 2011	28 April 2011 - 27 April 2012	28 April 2012 - 27 April 2021	1,351,390
28 April 2011	28 April 2011 - 27 April 2013	28 April 2013 - 27 April 2021	2,027,085
28 April 2011	28 April 2011 - 27 April 2014	28 April 2014 - 27 April 2021	2,702,780
28 April 2011	28 April 2011 - 27 April 2015	28 April 2015 - 27 April 2021	3,378,475
28 April 2011	28 April 2011 - 27 April 2016	28 April 2016 - 27 April 2021	4,054,170
			13,513,900

No options were exercised during the period. The number of share options outstanding at 30 June 2011 was 20,313,900.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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

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

The options were granted on 28 April 2011 with estimated fair value of the options granted on that date was approximately RMB23,288,000. 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	HKD4.80
Exercise price	HKD4.80
Risk-free interest rate	2.39%
Expected option life	8 years
Expected volatility	43.07%
Expected dividend yield	1.46%

Expected volatility was determined by using the historical volatility of the Company's comparable companies' share price over 4 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 expenses of approximately RMB2,970,000 for the six months ended 30 June 2011 (six months ended 30 June 2010: RMB2,849,000) 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

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

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

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB84,000 for the period ended 30 June 2011 (2010: RMB285,000) in relation to share award.

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

No share awards were vested and released during the period. The number of share awards outstanding at 30 June 2011 was 308,742.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

16. RELATED PARTY TRANSACTIONS

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

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

Name of/and relationship with related parties

Name of related parties	Relationship
Mr. Wu Chak Man	Key management of the Group
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 one of the controlling shareholders of the Company, together have 86.16% equity interest in this entity

Nature of transactions

Rental charges by Fuzhou 851	
Service fee at recreation centre paid to Fuzhou 851	
After-sales service fee paid to Fuzhou Tianliang	
Technical service fee paid to Fuzhou Tianliang	
Interest received on loan advanced to key management	

Six months ended 30 June

2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
1,272	1,274
3,000	3,000
5,879	4,201
1,260	900
17	17
<u>11,428</u>	<u>9,392</u>

In addition, included in loan receivables at 30 June 2011 was loan advanced to key management of approximately RMB1,700,000 (31 December 2010: RMB700,000).

Compensation of key management personnel

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

Six months ended 30 June

	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Salaries, allowances and other short-term employee benefits	2,170	1,595
Contribution to retirement benefits schemes	36	34
Share-based payments expense	1,691	3,021
	<u>3,897</u>	<u>4,650</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

17. CAPITAL COMMITMENTS

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial information	<u>135,390</u>	<u>149,072</u>

18. EVENTS AFTER THE REPORTING PERIOD

Issue of share options

On 22 July 2011, the Company granted a total of 3,681,500 share options to subscribe for up to 3,681,500 ordinary shares of USD0.01 each in the capital of the Company at an exercise price of HKD4.60 under its share option scheme to certain eligible participants. The closing price of the Company's share on grant date was HKD4.60.

Details of specific categories of share options are as follows:

Date of grant	Vesting period	Exercise period	Number of share options granted
22 July 2011	22 July 2011 – 27 April 2012	28 April 2012 – 27 April 2021	413,600
22 July 2011	22 July 2011 – 21 July 2012	22 July 2012 – 21 July 2021	221,250
22 July 2011	22 July 2011 – 27 April 2013	28 April 2013 – 27 April 2021	470,400
22 July 2011	22 July 2011 – 21 July 2013	22 July 2013 – 21 July 2021	331,875
22 July 2011	22 July 2011 – 27 April 2014	28 April 2014 – 27 April 2021	827,200
22 July 2011	22 July 2011 – 21 July 2014	22 July 2014 – 21 July 2021	529,200
22 July 2011	22 July 2011 – 27 April 2015	28 April 2015 – 27 April 2021	284,000
22 July 2011	22 July 2011 – 21 July 2015	22 July 2015 – 21 July 2021	119,625
22 July 2011	22 July 2011 – 27 April 2016	28 April 2016 – 27 April 2021	340,800
22 July 2011	22 July 2011 – 21 July 2016	22 July 2016 – 21 July 2021	143,550
			<u>3,681,500</u>

The directors of the Company are still assessing the financial impact of this transaction.

Further details of the grant of share options are set out in the announcement of the Company dated 22 July 2011.