NetDragon Websoft Inc.
網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2011

The board (the "Board") of directors (the "Director(s)") of NetDragon Websoft Inc. (the "Company") is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2011. The third quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the "Auditor") of the Company, 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 (the "HKICPA"), and reviewed by the audit committee (the "Audit Committee") of the Company, comprising of three independent non-executive Directors.

RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months and nine months ended 30 September 2011 together with the comparative figures in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

		Three months ended 30 September		**Nine months ended 30 September**	
		2011	2010	**2011**	2010
		(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	NOTES	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	4	**202,739**	128,219	**543,798**	387,815
Cost of revenue		**(18,043)**	(16,368)	**(46,695)**	(51,715)
Gross profit		**184,696**	111,851	**497,103**	336,100
Other income and gains	4	**5,303**	8,565	**20,787**	23,511
Selling and marketing expenses		**(34,310)**	(28,886)	**(94,063)**	(77,713)
Administrative expenses		**(56,156)**	(48,059)	**(151,622)**	(132,239)
Development costs		**(36,280)**	(36,966)	**(111,882)**	(112,343)
Other expenses		**(3,894)**	(1,380)	**(6,547)**	(4,840)
Finance costs		**(316)**	—	**(316)**	—
Share of losses of associates		**(65)**	—	**(142)**	—
Profit before taxation		**58,978**	5,125	**153,318**	32,476
Taxation	6	**(9,124)**	(2,278)	**(25,822)**	(6,956)
Profit for the period	7	**49,854**	2,847	**127,496**	25,520
Other comprehensive expense:					
Exchange differences arising on translation of foreign operations		**(734)**	(49)	**(1,281)**	(21)
Total comprehensive income for the period		**49,120**	2,798	**126,215**	25,499
Profit for the period attributable to:					
- Owners of the Company		**49,771**	2,894	**127,300**	25,657
- Non-controlling interests		**83**	(47)	**196**	(137)
		49,854	2,847	**127,496**	25,520
Total comprehensive income attributable to:					
- Owners of the Company		**49,037**	2,845	**126,019**	25,636
- Non-controlling interests		**83**	(47)	**196**	(137)
		49,120	2,798	**126,215**	25,499
		RMB cents	*RMB cents*	***RMB cents***	*RMB cents*
Earnings per share	9				
- Basic		**9.48**	0.55	**24.20**	4.88
- Diluted		**9.48**	0.55	**24.20**	4.88

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

	NOTES	**30 September 2011** ***(Unaudited)*** ***RMB'000***	31 December 2010 *(Audited)* *RMB'000*
Non-current assets			
Property, plant and equipment		**163,476**	128,534
Prepaid lease payments		**86,708**	87,753
Investment property		**15,900**	14,551
Deposit paid for acquisition of property, plant and equipment		**19,050**	19,050
Intangible assets		**6,152**	13,136
Interests in associates	10	**7,108**	—
Available-for-sale investments		**4,000**	4,000
Loan receivables		**7,356**	5,819
Deferred tax assets		**54**	54
		309,804	272,897
Current assets			
Prepaid lease payments		**1,784**	1,784
Loan receivables		**361**	893
Trade receivables	11	**43,024**	24,393
Other receivables, prepayments and deposits		**40,322**	40,072
Held for trading investments		**—**	1,079
Amounts due from related companies	12	**890**	171
Bank deposits		**30,000**	340,828
Bank balances and cash		**1,282,890**	877,823
		1,399,271	1,287,043

	NOTES	30 September 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Current liabilities			
Trade payables	13	**1,003**	519
Other payables and accruals		**78,743**	58,218
Deferred income		**23,319**	23,119
Amount due to a shareholder		**—**	5,328
Promissory notes	15	**29,565**	—
Income tax payable		**29,749**	21,599
		162,379	108,783
Net current assets		**1,236,892**	1,178,260
Non-current liabilities			
Redeemable convertible preferred shares	14	**14,541**	—
Conversion option derivative liability	14	**11,398**	—
		25,939	—
		1,520,757	1,451,157
Capital and reserves			
Share capital		**39,026**	39,264
Share premium and reserves		**1,482,075**	1,412,433
Equity attributable to owners of the Company		**1,521,101**	1,451,697
Non-controlling interests		**(344)**	(540)
		1,520,757	1,451,157

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

	Attributable to owners of the Company														
	Share capital	**Share premium**	**Capital redemption reserve**	**Other reserve**	**Capital reserve**	**Statutory reserves**	**Dividend reserve**	**Revaluation reserve**	**Treasury share reserve**	**Employee share-based compensation reserve**	**Translation reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (Note)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 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	—	—	—	—	—	—	—	—	—	—	—	25,657	25,657	(137)	25,520
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(21)	—	(21)	—	(21)
Total comprehensive (expenses) income for the period	—	—	—	—	—	—	—	—	—	—	(21)	25,657	25,636	(137)	25,499
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	4,701	—	—	4,701	—	4,701
Final dividend for 2009 paid	—	—	—	—	—	—	(23,270)	—	—	—	—	—	(23,270)	—	(23,270)
Interim dividend for 2010 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(23,056)	(23,056)	—	(23,056)
Transfer	—	—	—	—	—	17	—	—	—	—	—	(17)	—	—	—
At 30 September 2010 (unaudited)	39,264	1,157,364	1,963	—	9,946	114,659	—	—	(10,757)	9,342	(56,512)	175,047	1,440,316	(621)	1,439,695
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	—	—	—	—	—	—	—	—	—	—	—	127,300	127,300	196	127,496
Other comprehensive expenses for the period	—	—	—	—	—	—	—	—	—	—	(1,281)	—	(1,281)	—	(1,281)
Total comprehensive (expenses) income for the period	—	—	—	—	—	—	—	—	—	—	(1,281)	127,300	126,019	196	126,215
Deemed contribution from a substantial shareholder	—	—	—	2,209	—	—	—	—	—	—	—	—	2,209	—	2,209
Repurchase and cancellation of shares	(238)	(12,122)	238	—	—	—	—	—	—	—	—	(238)	(12,360)	—	(12,360)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	6,487	—	—	6,487	—	6,487
Final dividend for 2010 paid	—	—	—	—	—	—	(8,994)	—	—	—	—	—	(8,994)	—	(8,994)
Interim dividend for 2011 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(43,957)	(43,957)	—	(43,957)
At 30 September 2011 (unaudited)	39,026	1,145,242	2,201	2,209	9,946	121,339	—	673	(8,494)	16,026	(57,944)	250,877	1,521,101	(344)	1,520,757

Note: Other reserve represented the deemed contribution arising from the promissory notes issued to a substantial shareholder of the Company which is interest-free. The details of the promissory notes are set out in Note 15.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

	Nine months ended 30 September	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
NET CASH FROM OPERATING ACTIVITIES	**186,234**	50,583
INVESTING ACTIVITIES:		
Acquisition of assets through acquisition of a subsidiary	**—**	(58,149)
Proceeds from disposal of interests in jointly controlled entities	**—**	4,000
Acquisitions of associates	**(7,250)**	—
Purchase of property, plant and equipment	**(64,200)**	(30,151)
Decrease in bank deposits	**310,828**	112,327
Other investing cash flows	**(12,945)**	10,596
NET CASH FROM INVESTING ACTIVITIES	**226,433**	38,623
FINANCING ACTIVITIES:		
Dividends paid	**(52,951)**	(46,326)
Payment for repurchase of shares	**(12,360)**	—
Proceeds from issue of redeemable convertible preferred shares	**25,839**	—
Proceeds from issue of promissory notes	**31,774**	—
NET CASH USED IN FINANCING ACTIVITIES	**(7,698)**	(46,326)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**404,969**	42,880
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**877,823**	705,053
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**98**	421
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	**1,282,890**	748,354

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 Group are engaged in online game development, including games 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 amounts included in the condensed consolidated financial information has been computed in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA applicable to interim periods. However, it does not contain sufficient information to constitute a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by 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 three months and nine months ended 30 September 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010. In addition, the following accounting policies are applied by the Group as they have become applicable to the Group.

Redeemable convertible preferred shares

Redeemable convertible preferred shares issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the subsidiary of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the redeemable convertible preferred shares is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the redeemable convertible preferred shares are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the redeemable convertible preferred shares using the effective interest method.

Promissory notes

Promissory notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option component of the promissory notes that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the subsidiary of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of promissory notes is recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new or revised HKFRSs") issued by the HKICPA:

- Improvements to HKFRSs issued in 2010
- HKAS 24 (as revised in 2009) Related Party Disclosures
- Amendments to HKAS 32 Classification of Rights Issues
- Amendments to HK(IFRIC) - Int 14 Prepayments of a Minimum Funding Requirement
- HK(IFRIC) - Int 19 Extinguishing Financial Liabilities with Equity Instruments

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:

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]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[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.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires extensive judgement.

The Directors of the Company are in progress of making an assessment of the impact of these new and revised HKFRSs upon initial application. However, it is not yet in the position to state whether they would have a significant impact on the Group's result of operation and financial position.

4. REVENUE, OTHER INCOME AND GAINS

	Three months ended 30 September		**Nine months ended 30 September**	
	2011	2010	**2011**	2010
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Revenue				
Online game revenue	**183,533**	128,219	**509,052**	387,815
Mobile Internet business revenue *(Note a)*	**19,206**	—	**34,746**	—
	202,739	128,219	**543,798**	387,815
Other income and gains				
Advertising income	**—**	56	**—**	211
Business tax refunded	**—**	—	**—**	208
Gain on fair value changes of investment property	**406**	—	**2,003**	—
Gain on disposal of jointly controlled entities	**—**	—	**—**	4,000
Government grants *(Note b)*	**172**	2,277	**4,543**	3,387
Interest income	**2,447**	3,153	**9,766**	8,924
Net gain on held for trading investments	**965**	1,354	**1,255**	3,060
Mobile Internet business income *(Note a)*	**—**	948	**—**	2,472
Rental income, net of outgoings	**74**	—	**228**	—
Others	**1,239**	777	**2,992**	1,249
	5,303	8,565	**20,787**	23,511

Notes:

(a) For the period ended 30 September 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 September 2011 whereas it had been classified as other income and gains for the period ended 30 September 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.

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 three months and nine months ended 30 September 2011, the Group was engaged in two operating segments, online game and mobile Internet business. The CODM considered that it is in 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:

Three months ended 30 September 2011

	Online game	**Mobile Internet business**	**Total**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	**183,533**	**19,206**	**202,739**
Segment profit	**66,101**	**679**	**66,780**
Unallocated income and gains			**5,131**
Unallocated expenses			**(12,868)**
Share of losses of associates			**(65)**
Profit before taxation			**58,978**

Nine months ended 30 September 2011

	Online game (Unaudited) *RMB'000*	Mobile Internet business (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Segment revenue	**509,052**	**34,746**	**543,798**
Segment profit (loss)	**178,722**	**(2,284)**	**176,438**
Unallocated income and gains			**16,244**
Unallocated expenses			**(39,222)**
Share of losses of associates			**(142)**
Profit before taxation			**153,318**

Three months ended 30 September 2010 (Restated)

	Online game (Unaudited) *RMB'000*	Mobile Internet business (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Segment revenue	128,219	948	129,167
Less: Classified as other income and gains			(948)
Consolidated total			128,219
Segment profit (loss)	14,435	(3,005)	11,430
Unallocated income and gains			5,284
Unallocated expenses			(11,589)
Profit before taxation			5,125

Nine months ended 30 September 2010 (Restated)

	Online game	**Mobile Internet business**	**Total**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	387,815	2,472	390,287
Less: Classified as other income and gains			(2,472)
Consolidated total			387,815
Segment profit (loss)	61,422	(10,979)	50,443
Unallocated income and gains			17,233
Unallocated expenses			(35,200)
Profit before taxation			32,476

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 losses of associates, income tax expenses, unallocated income, gains and expenses and finance costs). 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 September 2011	31 December 2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Online game	**1,475,582**	1,284,684
Mobile Internet business	**85,770**	5,755
Total segment assets	**1,561,352**	1,290,439
Unallocated	**147,723**	269,501
	1,709,075	1,559,940

6. TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2011	2010	**2011**	2010
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The charge comprises:				
Hong Kong Profits Tax	**1,631**	—	**5,353**	—
The PRC Enterprise Income Tax ("EIT")	**7,418**	2,194	**20,333**	6,819
Taxation in other jurisdictions	**75**	84	**136**	137
	9,124	2,278	**25,822**	6,956

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months and nine months ended 30 September 2011. No provision for Hong Kong Profits Tax had been made for the three months and nine months ended 30 September 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 business 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. ("TQ Digital"), Fujian TQ Online Interactive Inc. and Shanghai Tiankun Digital Technology Limited ("NetDragon (Shanghai)"), 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.

7. PROFIT FOR THE PERIOD

	Three months ended 30 September		Nine months ended 30 September	
	2011	2010	**2011**	2010
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit for the period has been arrived at after charging (crediting):				
Staff costs:				
Directors' emoluments	**1,412**	2,312	**3,900**	5,235
Other staff costs				
Salaries and other benefits	**52,624**	50,621	**160,595**	157,998
Contributions to retirement benefits schemes	**5,121**	4,590	**14,316**	12,812
Share-based payments expense	**2,609**	547	**4,660**	1,641
	61,766	58,070	**183,471**	177,686
Amortisation of intangible assets (included in cost of revenue)	**2,347**	1,187	**6,038**	3,485
Amortisation of intangible assets (included in other expenses)	**2,715**	548	**3,894**	1,418
Effective interest expense on convertible preferred shares	**316**	—	**316**	—
Release of prepaid lease payments	**487**	177	**1,045**	389
Depreciation of property, plant and equipment	**8,226**	12,490	**28,011**	38,772
Operating lease rentals in respect of:				
- rented premises	**3,275**	4,649	**11,724**	12,183
- computer equipment	**9,429**	8,581	**23,783**	28,374
Net foreign exchange loss	**6,817**	5,031	**13,876**	8,744
Loss from changes in fair value of conversion option derivative	**210**	—	**210**	—
Loss (gain) on disposal of property, plant and equipment	**145**	—	**(41)**	367

8. DIVIDENDS

	Three months ended 30 September		**Nine months ended 30 September**	
	2011	2010	**2011**	2010
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Final dividend of Hong Kong Dollar ("HK$") 0.02 per share for the year ended 31 December 2010 recognised as distribution during the interim period (2010: HK$0.05 per share for the year ended 31 December 2009)	**—**	—	**8,994**	23,270

Interim dividend of HK$0.10 per share for the six months ended 30 June 2011 (six months ended 30 June 2010: HK$0.05 per share), amounting to RMB43,957,000 (six month ended 30 June 2010: RMB23,056,000) in aggregate, had been approved by the Directors of the Company at the board meeting on 25 August 2011 and was paid on 15 September 2011.

The Directors of the Company do not recommend the payment of an interim dividend for the three months ended 30 September 2011 (three months ended 30 September 2010: Nil).

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:

	Three months ended 30 September		**Nine months ended 30 September**	
	2011	2010	**2011**	2010
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share - profit for the period attributable to the owners of the Company	**49,771**	2,894	**127,300**	25,657

	Number of shares			
	Three months ended 30 September		**Nine months ended 30 September**	
	2011	2010	**2011**	2010
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	'000	*'000*	***'000***	*'000*
Number of shares for the purposes of basic and diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**524,990**	526,151	**526,113**	526,151

The presentation of diluted earnings per share for the three months and nine months ended 30 September 2011 have not taken into account the effect of potential shares granted 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 three months and nine months ended 30 September 2011 and 2010.

10. INTERESTS IN ASSOCIATES

	30 September 2011	31 December 2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Unlisted investments outside Hong Kong:		
Cost of investments	**7,250**	—
Share of post-acquisition losses	**(142)**	—
	7,108	—
Share of net assets - unlisted	**7,108**	—

As at 30 September 2011, the Group had interests in the following associates:

Name of entities	Percentage of registered capital held by the Group	Place of establishment/ operation	Registered capital	Principal activity
廈門易用軟件技術有限公司 (「廈門易用」) (E-Yong Websoft Inc.*) *(Note a)*	50%	PRC	RMB1,000,000	Provision of business management software application development
上海博股信息科技有限公司 (Shanghai Bogu Information Technology Co., Ltd*) *(Note b)*	35%	PRC	RMB5,000,000	Provision of software for stock information enquiries
濟南四葉草信息技術有限公司 (「濟南四葉草」) (CloverTek Co.,Ltd*) *(Note a)*	12%	PRC	RMB579,600	Provision of software application development and maintenance

Notes:

(a) During the period, the Group has acquired two associates, 廈門易用 and 濟南四葉草 from independent third parties with an aggregated fair value of assets and liabilities attributable to the interests acquired by the Group of approximately RMB1,741,000 at a total consideration of RMB5,500,000. The investment costs of 廈門易用 and 濟南四葉草 included goodwill of approximately RMB1,141,000 and approximately RMB2,618,000, respectively. The Group holds 12% of the equity interests of 濟南四葉草 and have right to appoint at one director out of three directors in the board. Therefore, 濟南四葉草 is classified as an associate of the Group.

(b) The entity is newly established during the period ended 30 September 2011.

* *For identification purpose only*

11. 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 September 2011	31 December 2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
0 - 30 days	**27,320**	18,250
31 - 60 days	**8,602**	4,876
61 - 90 days	**2,609**	1,000
Over 90 days	**4,493**	267
	43,024	24,393

12. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Name of related companies	**Terms**	**Balance at 30 September 2011**	**Balance at 1 January 2011**	**Maximum amount outstanding during the period**
		(Unaudited)	**(Audited)**	**(Unaudited)**
		RMB'000	*RMB'000*	*RMB'000*
福州楊振華851生物工程技術研究開發有限公司 Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") *(Note 1)*	Unsecured, non-interest bearing and repayable on demand	318	—	636
福州天亮網絡技術有限公司 Fuzhou Tianliang Network Technology Co., Limited ("Fuzhou Tianliang") *(Note 2)*	Unsecured, non-interest bearing and repayable on demand	572	171	1,071
		890	171	

Notes:

(1) Fuzhou 851 is an entity which is owned by DJM Holding Ltd., the immediate holding company of the 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.

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

13. 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 September 2011	31 December 2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
0 - 90 days	**987**	508
91 - 180 days	**5**	—
181 - 365 days	**—**	—
Over 365 days	**11**	11
	1,003	519

14. REDEEMABLE CONVERTIBLE PREFERRED SHARES

A subsidiary of the Company issued 15,384,000 redeemable convertible preferred shares of par value of US$0.0001 each at an aggregate issue price of US$3,999,840 (equivalent to approximately RMB25,839,000) to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. and IDG-Accel China Growth Fund L.P. (collectively referred to as "IDG Companies"), subsidiaries of a substantial shareholder of the Company, on 13 August 2011. The redeemable convertible preferred shares are denominated in United Stated dollars.

Conversion

The redeemable convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the redeemable convertible preferred shares and the 5th anniversary of the issue date, into ordinary shares of the subsidiary of the Company at the conversion ratio of one ordinary share for each redeemable convertible preferred share. The initial conversion ratio of 1:1 is subject to adjustments, in the event of share splits, share combinations, share dividends or distribution, other dividends, recapitalisation and similar events. The redeemable convertible preferred shares shall be automatically converted into ordinary shares upon the occurrence of a public offering of the shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than US$150,000,000 and the aggregate net proceeds to the subsidiary of the Company are in excess of US$50,000,000.

Dividends

The holders of outstanding redeemable convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of any assets at the time legally available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares in such calendar year. The right to receive dividends on redeemable convertible preferred shares shall not be cumulative, and no right to such dividends shall accrue to holders of redeemable convertible preferred shares by reason of the fact that dividends on said shares are not declared or paid in any calendar year.

Redemption

At any time after the 5th but not later than the 10th anniversary of the date on which the redeemable convertible preferred shares was issued, by a written request signed by holders of at least two-thirds of the redeemable convertible preferred shares, all outstanding redeemable convertible preferred shares shall be redeemed at original issue price per redeemable convertible preferred shares of US$0.26 plus cumulative rate of return of 5% per annum, and any declared but unpaid dividends on such redeemable convertible preferred shares.

Liquidation

The holders of the redeemable convertible preferred shares have preference over holders of ordinary shares with respect to payment of dividends and distribution of assets or surplus funds upon voluntary or involuntary liquidation of the subsidiary of the Company. The holders of the redeemable convertible preferred shares shall be entitled to receive the original issue price of US$0.26 per redeemable convertible preferred share plus 5% per annum cumulative rate of return upon liquidation.

The redeemable convertible preferred shares contain two components, liability component and conversion option derivative. The effective interest rate of the liability component is 16.834% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

The movements of the liability component and conversion option derivative of the redeemable convertible preferred shares for the year are set out as below:

	Liability component *(Unaudited)* *RMB'000*	**Conversion option derivative** *(Unaudited)* *RMB'000*
At initial recognition	14,466	11,373
Exchange realignment	(241)	(185)
Interest charge	316	—
Loss arising on changes of fair value	—	210
As at 30 September 2011	14,541	11,398

The assumptions adopted for the valuation of the conversion option derivative component of the redeemable convertible preferred shares using Binomial option pricing model as of 13 August 2011 and 30 September 2011 respectively, are as follows:

	13 August 2011	**30 September 2011**
Risk-free interest rate	1.04%	1.03%
Expected volatilty	51.06%	53.33%
Discount rate	17.92%	17.73%

The change in fair value of approximately RMB210,000 has been recognised in the condensed consolidated statements of comprehensive income for the three-month and nine-month periods ended 30 September 2011.

The fair values were determined by the Directors with reference to valuation report carried out by an independent qualified professional valuer, 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 instruments.

15. PROMISSORY NOTES

On 21 September 2011, a subsidiary of the Company has issued the promissory notes with a total principal amount of US$5,000,000 (equivalent to approximately RMB31,774,000) to IDG Companies to enhance the working capital and strengthen the capital base and financial position of the mobile Internet business for further investments. The promissory notes bear no interest and become due and payable at the option of the note holders at any time on and after 20 March 2012 (the "Maturity Date"). The promissory notes bear interest of 8% per annum for the period from the date immediately after the Maturity Date and until the time the promissory notes are fully repaid.

The holders of promissory notes have the option to convert the entire principal amount of the promissory notes into such number of redeemable convertible preferred shares of the subsidiary of the Company by dividing the entire principal amount of the promissory notes by conversion price. The terms and conditions of the redeemable convertible preferred shares are to be determined at the time of conversion. Similarly, the conversion price is to be determined by the subsidiary of the Company with reference to the fair market value of the redeemable covertible preferred shares of the subsidiary of the Company at the time of conversion.

The valuation of the promissory notes using Binomial option pricing model as of 21 September 2011 uses the present value of the cash flow projections based on financial budgets approved by the management covering a 5-year period, and at a discount rate of 15.64% with reference to valuation report carried out by an independent qualified professional valuer, 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 instruments. The fair value of the promissory notes is approximately US$4,652,000 (equivalent to approximately RMB29,565,000) and the difference of approximately US$384,000 (equivalent to approximately RMB2,209,000) between the carrying amount and the principal amount of the promissory notes at the initial recognition was recognised as deemed contribution from a substantial shareholder.

16. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 12 June 2008. The purpose of the Scheme is to provide the eligible participant (the "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 September 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 September 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

Batch 3:

Date of grant	Vesting period	Exercise period	Number of share options at 30 September 2011
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
			3,681,500

No options were exercised during the period. The number of share options outstanding at 30 September 2011 was 23,995,400.

The options granted on 28 April 2011 and 22 July 2011 with estimated fair value of the options granted on those dates were approximately RMB23,288,000 and approximately RMB5,739,000, respectively. These fair values were calculated by using the Black-Scholes option pricing model. The inputs into the model were as follows:

Batch 2:

Closing price of the Company's shares on grant date	HK$4.8
Exercise price	HK$4.8
Risk-free interest rate	2.39%
Expected option life	8 years
Expected volatility	43.07%
Expected dividend yield	1.46%

Batch 3:

Closing price of the Company's shares on grant date	HK$4.6
Exercise price	HK$4.6
Risk-free interest rate	1.96%
Expected option life	8 years
Expected volatility	43.23%
Expected dividend yield	1.52%

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 RMB3,391,000 and approximately RMB6,361,000 for the three months and nine months ended 30 September 2011, respectively (three months and nine months ended 30 September 2010: approximately RMB1,424,000 and approximately RMB4,273,000, respectively) 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.

The 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 RMB42,000 and approximately RMB126,000 for the three months and nine months ended 30 September 2011, respectively (three months and nine months ended 30 September 2010: approximately RMB142,000 and approximately RMB428,000, respectively) in relation to share award.

Among the Awards granted on 15 October 2008, 376,832 share awards vested on 6 November 2008, 376,832 share awards vested on 6 November 2009, 524,594 share awards vested on 6 November 2010, 229,065 share awards vested on 6 November 2011 and the remaining 79,677 share awards 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 September 2011 was 308,742.

17. 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 certain 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

	Three months ended 30 September		Nine months ended 30 September	
	2011	2010	**2011**	2010
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Nature of transactions				
Rental charges by Fuzhou 851	**636**	634	**1,908**	1,908
Service fee at recreation centre paid to Fuzhou 851	**1,500**	1,500	**4,500**	4,500
After-sales service fee paid to Fuzhou Tianliang	**3,022**	2,558	**8,901**	6,759
Technical service fee paid to Fuzhou Tianliang	**648**	548	**1,907**	1,448
Interest received on loan advanced to key management	**9**	9	**26**	26

During the three months and nine months ended 30 September 2011, a subsidiary of the Company has issued US$5,000,000 promissory notes (equivalent to approximately RMB31,774,000) and US$3,999,840 (equivalent to approximately RMB25,839,000) redeemable convertible preferred shares to IDG Group.

In addition, included in loan receivables at 30 September 2011 were loan advanced to key management of approximately RMB1,700,000 (31 December 2010: approximately RMB700,000). The loans carry fixed interest at 4.896% per annum of which RMB700,000 is repayable in 2013 and RMB1,000,000 is repayable in 2014.

Compensation of key management personnel

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

	Three months ended 30 September		Nine months ended 30 September	
	2011	2010	**2011**	2010
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Salaries, allowances and other short-term employee benefits	**832**	798	**3,002**	2,393
Contributions to retirement benefits schemes	**19**	17	**55**	51
Share-based payments expense	**1,086**	1,510	**2,777**	4,531
	1,937	2,325	**5,834**	6,975

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

18. CAPITAL COMMITMENTS

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

	30 September	31 December
	2011	2010
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial information	**118,818**	149,072

OPERATION INFORMATION

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

	For the three months ended				
	30 September 2011	30 June 2011	31 March 2011	31 December 2010	30 September 2010
PCU	**569,000**	643,000	546,000	542,000	589,000
ACU	**300,000**	311,000	246,000	232,000	226,000

Note: *As at 30 September 2011, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online and other games.*

The PCU for online game was approximately 569,000 for the three months ended 30 September 2011, representing a decrease of approximately 11.5% from the three months ended 30 June 2011 and representing a decrease of approximately 3.4% from the three months ended 30 September 2010.

We also recorded the ACU for online game of approximately 300,000 for the three months ended 30 September 2011, which represented a decrease of approximately 3.5% from the three months ended 30 June 2011 and represented an increase of approximately 32.7% from the three months ended 30 September 2010.

FINANCIAL PERFORMANCE HIGHLIGHTS
FOR THE NINE MONTHS ENDED 30 SEPEEMBER 2011

The following table sets forth the comparative figures for the nine months ended 30 September 2011 and 2010:

	Nine months ended 30 September	
	2011	2010
	RMB'000	*RMB'000*
Revenue	**543,798**	387,815
Cost of revenue	**(46,695)**	(51,715)
Gross profit	**497,103**	336,100
Other income and gains	**20,787**	23,511
Selling and marketing expenses	**(94,063)**	(77,713)
Administrative expenses	**(151,622)**	(132,239)
Development costs	**(111,882)**	(112,343)
Other expenses	**(6,547)**	(4,840)
Finance costs	**(316)**	—
Share of losses of associates	**(142)**	—
Profit before taxation	**153,318**	32,476
Taxation	**(25,822)**	(6,956)
Profit for the period	**127,496**	25,520
Profit for the period attributable to:		
- Owners of the Company	**127,300**	25,657
- Non-controlling interests	**196**	(137)
	127,496	25,520

Revenue

Revenue for the nine months ended 30 September 2011 was approximately RMB543.8 million, representing an increase of approximately 40.2% as compared to approximately RMB387.8 million for the nine months ended 30 September 2010.

Online game

Our online game revenue for the nine months ended 30 September 2011 was approximately RMB509.1 million, representing an increase of approximately 31.3% as compared to approximately RMB387.8 million for the nine months ended 30 September 2010.

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

	For the nine months ended 30 September			
	2011		2010	
	RMB'000	***% of online game revenue***	*RMB'000*	*% of online game revenue*
PRC	**408,261**	**80.2**	298,391	76.9
Overseas	**100,791**	**19.8**	89,424	23.1
	509,052	**100.0**	387,815	100.0

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the nine months ended 30 September 2011 was approximately RMB408.3 million, representing an increase of approximately 36.8% over the nine months ended 30 September 2010.

The online game revenue derived from overseas markets for the nine months ended 30 September 2011 was approximately RMB100.8 million, representing an increase of approximately 12.7% over the nine months ended 30 September 2010.

Mobile Internet business

The Group had commenced to establish the operation of the mobile Internet business in 2008 and it started to contribute revenue in early 2010. After three years of sustained investment and development in 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 helps the Group to maximize the potential valuation. For the nine months ended 30 September 2011, revenue generated from the mobile Internet business was approximately RMB34.7 million, which representing approximately 6.4% of the total revenue.

While compared with mobile Internet business revenue, which was previously classified as "Other income and gains", for the nine months ended 30 September 2010 was approximately RMB2.5 million, representing an increase of approximately 1,305.6%.

Third Quarter of 2011

Revenue

Revenue for the third quarter of 2011 was approximately RMB202.7 million, representing an increase of approximately 10.0% from the second quarter of 2011 and an increase of approximately 58.1% over the same period in 2010.

However, the online game revenue for the third quarter of 2011 was approximately RMB183.5 million, representing an increase of approximately 5.0% from the second quarter of 2011 and an increase of approximately 43.1% over the same period in 2010.

Besides, the mobile Internet business revenue for the third quarter of 2011 was approximately RMB19.2 million, representing an increase of approximately 103.4% from the second quarter of 2011 and an increase of approximately 1,923.8% over the same period in 2010, which was previously classified as "Other income and gains".

Cost of revenue

Cost of revenue for the third quarter of 2011 was approximately RMB18.0 million, representing an increase of approximately 27.9% from the second quarter of 2011 and an increase of approximately 10.2% over the same period in 2010.

Other income and gains

Other income and gains of approximately RMB5.3 million were recorded for the third quarter of 2011, compared to other income and gains that of approximately RMB5.6 million and approximately RMB8.6 million for the second quarter of 2011 and the same period in 2010, respectively.

Meanwhile, as mentioned in the above paragraph headed "Revenue - Mobile Internet business", the revenue derived from mobile Internet business for the nine months ended 30 September 2011 had been re-classified as "Revenue", thus no comparative figures were presented in other income and gains during the period under review. For the third quarter of 2010, mobile Internet business income was approximately RMB0.9 million.

Selling and marketing expenses

Selling and marketing expenses for the third quarter of 2011 were approximately RMB34.3 million, representing a decrease of approximately 0.4% from the second quarter of 2011 and an increase of approximately 18.8% over the same period in 2010.

Administrative expenses

Administrative expenses for the third quarter of 2011 were approximately RMB56.2 million, representing an increase of approximately 14.9% from the second quarter of 2011 and representing an increase of approximately 16.8% over the same period in 2010.

Development costs

Development costs for the third quarter of 2011 were approximately RMB36.3 million, representing an increase of approximately 3.6% from the second quarter of 2011 and a decrease of approximately 1.9% over the same period in 2010.

Other expenses

Other expenses for the third quarter of 2011 were approximately RMB3.9 million, representing an increase of approximately 406.9% from the second quarter of 2011 and an increase of approximately 182.1% over the same period in 2010.

Profit for the period

Profit for the third quarter of 2011 was approximately RMB49.9 million, representing an increase of approximately 16.0% from the second quarter of 2011 and an increase of approximately 1,651.1% over the same period in 2010. As a percentage of revenue, profit for the period accounted for approximately 24.6% for the third quarter of 2011, compared to approximately 23.3% for the second quarter of 2011 and approximately 2.2% for the same period of 2010.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the third quarter of 2011 was approximately RMB49.8 million, representing an increase of approximately 16.0% from the second quarter of 2011 and an increase of approximately 1,619.8% over the same period in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2011 Compared to Second Quarter of 2011

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

	Three months ended	
	30 September 2011	30 June 2011
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**202,739**	184,304
Cost of revenue	**(18,043)**	(14,109)
Gross profit	**184,696**	170,195
Other income and gains	**5,303**	5,572
Selling and marketing expenses	**(34,310)**	(34,435)
Administrative expenses	**(56,156)**	(48,875)
Development costs	**(36,280)**	(35,025)
Other expenses	**(3,894)**	(768)
Finance costs	**(316)**	—
Share of losses of associates	**(65)**	(77)
Profit before taxation	**58,978**	56,587
Taxation	**(9,124)**	(13,617)
Profit for the period	**49,854**	42,970
Profit for the period attributable to:		
- Owners of the Company	**49,771**	42,917
- Non-controlling interests	**83**	53
	49,854	42,970

FINANCIAL REVIEW

Revenue

Revenue for the three months ended 30 September 2011 was approximately RMB202.7 million, representing an increase of approximately 10.0% as compared to approximately RMB184.3 million for the three months ended 30 June 2011.

Online game

Our online game revenue for the three months ended 30 September 2011 was approximately RMB183.5 million, representing an increase of approximately 5.0% as compared to approximately RMB174.9 million for the three months ended 30 June 2011.

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

	Three months ended			
	30 September 2011		30 June 2011	
	RMB'000	***% of online game revenue***	*RMB'000*	*% of online game revenue*
PRC	**148,003**	**80.6**	142,283	81.4
Overseas	**35,530**	**19.4**	32,580	18.6
	183,533	**100.0**	174,863	100.0

The online game revenue derived from the PRC for the three months ended 30 September 2011 was approximately RMB148.0 million, representing an increase of approximately 4.0% as compared to approximately RMB142.3 million for the three months ended 30 June 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 the second quarter, which resulted in enhancing the attractiveness of the game for the three months ended 30 September 2011.

The online game revenue derived from overseas markets for the three months ended 30 September 2011 was approximately RMB35.5 million, representing an increase of approximately 8.9% as compared to approximately RMB32.6 million for the three months ended 30 June 2011. The increase in online game revenue derived from overseas markets was mainly due to the released of Turkish version of Conquer Online in June 2011 and new expansion pack for Conquer Online in various languages in the second quarter which resulted in enhancing the attractiveness of the game for the three months ended 30 September 2011.

Mobile Internet business

The mobile Internet business revenue for the three months ended 30 September 2011 was approximately RMB19.2 million, representing an increase of approximately 103.4% as compared to approximately RMB9.4 million for the three months ended 30 June 2011. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to the expansion of business networks; and (ii) the increase of mobile platforms revenue due to its increase in the overall popularity.

Cost of revenue

Cost of revenue for the three months ended 30 September 2011 was approximately RMB18.0 million, representing an increase of approximately 27.9% as compared to approximately RMB14.1 million for the three months ended 30 June 2011. The increase was mainly due to (i) the increase in cooperation fees of mobile Internet business for strengthening the cooperation with third-party development on mobile Internet business; and (ii) the increase in overseas server leasing costs due to the co-location of owned servers in order to obtain the achievements of cost savings in the future.

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 September 2011 and 30 June 2011 were approximately RMB2.9 million and approximately RMB1.0 million, respectively.

Gross profit

Our gross profit for the three months ended 30 September 2011 was approximately RMB184.7 million, representing an increase of approximately 8.5% as compared to approximately RMB170.2 million for the three months ended 30 June 2011.

The gross profit margin for the three months ended 30 September 2011 was approximately 91.1%, representing a decrease of approximately 1.2% as compared with the three months ended 30 June 2011.

Other income and gains

Other income and gains for the three months ended 30 September 2011 were approximately RMB5.3 million, representing a relatively steady level as compared with the three months ended 30 June 2011.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 September 2011 were approximately RMB34.3 million, which represented a relatively steady level as compared with the three months ended 30 June 2011.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 September 2011, the number of operation and marketing staff in the mobile Internet business was 76, which was increased by approximately 192.3%, as compared with the number of staff as at 30 June 2011. The selling and marketing expenses of mobile Internet business for the three months ended 30 September 2011 and 30 June 2011 were approximately RMB5.5 million and approximately RMB1.4 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 14.9% to approximately RMB56.2 million for the three months ended 30 September 2011 as compared with the three months ended 30 June 2011. The increase was mainly due to (i) the rise in exchange loss resulted from appreciation of RMB against USD and HKD; (ii) the increase in outsourced repair and maintenance expenses; and (iii) expenditures of share-based payments for the grant of share options to certain eligible participants as incentives in order to retain them for the contribution of the continuing operation and development of the Group.

Besides that, the Group re-allocated the resources for the mobile Internet business, integrated application development and other new business divisions. As at 30 September 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 32, which was increased by approximately 9.3%, as compared with the number of staff as at 30 June 2011. The total administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 30 September 2011 and 30 June 2011 were approximately RMB4.9 million and approximately RMB5.3 million, respectively.

Development costs

Development costs increased by approximately 3.6% to approximately RMB36.3 million for the three months ended 30 September 2011 as compared with the three months ended 30 June 2011. The increase in the amount of development costs was mainly caused by the increase of expenditures of share-based payments for the grant of share options to certain eligible participants as incentives in order to retain them for the contribution of the continuing operation and development of the Group.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 30 September 2011, the total number of research and development staff in the mobile Internet business and integrated application development was 296, which was increased by approximately 32.6%, as compared with the number of staff as at 30 June 2011. The total development costs of mobile Internet business and integrated application development for the three months ended 30 September 2011 and 30 June 2011 were approximately RMB8.4 million and approximately RMB6.1 million, respectively.

Other expenses

Other expenses for the three months ended 30 September 2011 were approximately RMB3.9 million, which represented an increase of approximately 406.9% as compared with the three months ended 30 June 2011. The increase in the amounts of other expenses was mainly caused by (i) donation to the Fujian Youth Development Foundation* (福建省青少年發展基金會); and (ii) a write-off of an investment in a film production project.

Taxation

Taxation for the three months ended 30 September 2011 was approximately RMB9.1 million, which dropped by approximately 33.0% as compared with the three months ended 30 June 2011. The decrease as compared with the three months ended 30 June 2011 was mainly due to the recognition of 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 September 2011 was approximately RMB49.8 million, representing an increase of approximately RMB6.9 million as compared with approximately RMB42.9 million for the three months ended 30 June 2011.

* *For identification purpose only*

Third Quarter of 2011 Compared to Third Quarter of 2010

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

	Three months ended 30 September	
	2011	2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**202,739**	128,219
Cost of revenue	**(18,043)**	(16,368)
Gross profit	**184,696**	111,851
Other income and gains	**5,303**	8,565
Selling and marketing expenses	**(34,310)**	(28,886)
Administrative expenses	**(56,156)**	(48,059)
Development costs	**(36,280)**	(36,966)
Other expenses	**(3,894)**	(1,380)
Finance costs	**(316)**	—
Share of losses of associates	**(65)**	—
Profit before taxation	**58,978**	5,125
Taxation	**(9,124)**	(2,278)
Profit for the period	**49,854**	2,847
Profit for the period attributable to:		
- Owners of the Company	**49,771**	2,894
- Non-controlling interests	**83**	(47)
	49,854	2,847

FINANCIAL REVIEW

Revenue

Revenue for the three months ended 30 September 2011 was approximately RMB202.7 million, representing an increase of approximately 58.1% as compared to approximately RMB128.2 million for the three months ended 30 September 2010.

Online game

Our online game revenue for the three months ended 30 September 2011 was approximately RMB183.5 million, representing an increase of approximately 43.1% as compared to approximately RMB128.2 million for the three months ended 30 September 2010.

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

	Three months ended 30 September			
	2011		2010	
	RMB'000	***% of online game revenue***	*RMB'000*	*% of online game revenue*
PRC	**148,003**	**80.6**	100,165	78.1
Overseas	**35,530**	**19.4**	28,054	21.9
	183,533	**100.0**	128,219	100.0

The online game revenue derived from the PRC for the three months ended 30 September 2011 was approximately RMB148.0 million, representing an increase of approximately 47.8% as compared to approximately RMB100.2 million for the three months ended 30 September 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 the release of the 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 September 2011 amounted to approximately RMB35.5 million, representing an increase of approximately 26.8% as compared with that of approximately RMB28.0 million for the three months ended 30 September 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 September 2011 was approximately RMB19.2 million, representing an increase of approximately 1,923.8% as compared to approximately RMB0.9 million, which was previously classified as "Other income and gains", for the three months ended 30 September 2010. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to the expansion of business networks; and (ii) the increase of mobile platforms revenue due to its increase in its overall popularity.

Cost of revenue

Cost of revenue for the three months ended 30 September 2011 increased by approximately 10.2% to approximately RMB18.0 million as compared with that of approximately RMB16.4 million for the three months ended 30 September 2010. The increase in cost of revenue was caused by (i) the increase in cooperation fees of mobile Internet business for strengthening the cooperation with third-party development on mobile Internet business; and (ii) the increase in overseas server leasing costs due to the co-location of owned servers in order to obtain the achievements of cost savings in the future.

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 September 2011 and 30 September 2010 were approximately RMB2.9 million and approximately RMB0.1 million, respectively.

Gross profit

Our gross profit for the three months ended 30 September 2011 was approximately RMB184.7 million, representing an increase of approximately 65.1% as compared to approximately RMB111.9 million for the three months ended 30 September 2010.

However, the gross profit margin for the three months ended 30 September 2011 was approximately 91.1%, which representing an increase of approximately 3.9% as compared with the three months ended 30 September 2010.

Other income and gains

Other income and gains for the three months ended 30 September 2011 decreased by approximately 38.1% to approximately RMB5.3 million as compared with the three months ended 30 September 2010. The decrease in other income and gains was mainly caused by (i) the decrease of the government grants received from Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") and TQ Digital from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Province (福建省福州市經濟技術開發區財政局) and Department of Finance of Fujian Province (福建省財政廳); and (ii) by the decrease of investment income.

Moreover, as mentioned in the above paragraph headed "Revenue - Mobile Internet business", the income derived from mobile Internet business for the nine months ended 30 September 2011 has re-classified as "Revenue", thus no comparative figures were 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 September 2010 was approximately RMB7.6 million. Other income and gains for the three months ended 30 September 2011 decreased by approximately 30.4% to approximately RMB5.3 million as compared with the three months ended 30 September 2010.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 September 2011 increased by approximately 18.8% to approximately RMB34.3 million as compared with the three months ended 30 September 2010. The increase in selling and marketing expenses was mainly due to (i) the increase in advertising and promotion activities of our mobile Internet business to enhance the popularity of the market; (ii) the increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development; and (iii) expenditures of share-based payments for the grant of share options to certain eligible participants as incentives in order to retain them for the contribution of the continuing operation and development of the Group.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 September 2011, the number of operation and marketing staff in the mobile Internet business was 76, which was decreased by approximately 52.2%, as compared with the number of staff as at 30 September 2010. The selling and marketing expenses of mobile Internet business for the three months ended 30 September 2011 and 30 September 2010 were approximately RMB5.5 million and approximately RMB0.4 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 16.8% to approximately RMB56.2 million for the three months ended 30 September 2011 as compared with the three months ended 30 September 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 September 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 32, which was decreased by approximately 53.6% as compared with the number of staff as at 30 September 2010. The administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 30 September 2011 and 30 September 2010 were approximately RMB4.9 million and approximately RMB2.5 million, respectively.

Development costs

Development costs decreased by approximately 1.9% to approximately RMB36.3 million for the three months ended 30 September 2011 as compared with the three months ended 30 September 2010. The number of staff in our development team increased from 1,363 as at 30 September 2010 to 1,464 as at 30 September 2011. The decrease in development costs was mainly due to the net effect of (i) there have one-off termination cost for an agreement signed with a Korea game design company for a development project of approximately RMB3.3 million for the three months ended 30 September 2010; (ii) the increase in staff costs related to recruiting experienced staff to strengthen the mobile internet business operations and development; and (iii) the increase of expenditures of share-based payments for the grant of share options to certain eligible participants as incentives in order to retain them for the contribution of continuing operation and development of the Group.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 30 September 2011, the total number of research and development staff in the mobile Internet business and integrated application development was 296, which was increased, by approximately 166.7%, as compared with the number of staff as at 30 September 2010. The total development costs of mobile Internet business and integrated application development for the three months ended 30 September 2011 and 30 September 2010 were approximately RMB8.4 million and approximately RMB5.4 million, respectively.

Other expenses

Other expenses for the three months ended 30 September 2011 were approximately RMB3.9 million, which represented an increase of approximately 182.1% as compared with the three months ended 30 September 2010. The increase in the amounts of other expenses was mainly caused by (i) donation to the Fujian Youth Development Foundation* (福建省青少年發展基金會); and (ii) a write-off of an investment in a film production project.

Taxation

Taxation for the three months ended 30 September 2011 rose by approximately 300.5% as compared with the three months ended 30 September 2010. The increase as compared with the three months ended 30 September 2010 was mainly due to growth in profit before tax as well as an increase in revenue recognised.

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 September 2011 was approximately RMB49.8 million, representing an increase of approximately RMB46.9 million as compared with approximately RMB2.9 million for the three months ended 30 September 2010.

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LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2011, we had bank deposits, bank balances and cash of approximately RMB1,312.9 million as compared with approximately RMB1,218.7 million as at 31 December 2010.

As at 30 September 2011, the Group had net current assets of approximately RMB1,236.9 million as compared with approximately RMB1,178.3 million as at 31 December 2010.

STAFF INFORMATION

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

	At 30 September 2011	At 30 June 2011	At 30 September 2010
Research and development	**1,464**	1,364	1,363
Operation and marketing	**494**	461	535
Accounting, finance and general administration	**349**	314	379
Total	**2,307**	2,139	2,277

As at 30 September 2011, we had a total of 2,307 employees (30 June 2011 and 30 September 2010: 2,139 and 2,277, respectively), 790 of which were online game developers of the research and development department, representing approximately 34.2% of the total number of staff.

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

	At 30 September 2011	At 30 June 2011	At 30 September 2010
Research and development	**198**	188	159
Operation and marketing	**76**	26	20
Accounting, finance and general administration	**32**	18	—
Total	**306**	232	179

The number of employees of integrated application development and other new business divisions as at 30 September 2011 under research and development was 98 (30 June 2011 and 30 September 2010: 80 and 91, respectively).

The number of employees of integrated application development and other new business divisions as at 30 September 2011 under accounting, finance and general administration was zero (30 June 2011 and 30 September 2010: 6 and 69, 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 September 2011, 30 June 2011 and 30 September 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.

BUSINESS REVIEW AND PROSPECTS

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.

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. The Group has launched new Chinese expansion pack "Soul of Steel" for Zero Online in March 2011. We have also launched a new Chinese expansion pack "Edge of Night" for Eudemons Online in April 2011. A new Chinese expansion pack "Legend of the Oriental" (東方傳奇) of Heroes of Might and a Magic was launched in August 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. During the period under review, the Turkish version and Traditional Chinese version of Conquer Online have been launched respectively. The Group has also launched different English version expansion packs 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. We have launched an expansion pack "Legends Return Season 3" in Brazilian version for Conquer Online in September 2011.

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.

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Starting from 2010, the Group has carried out four 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 early 2012.

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 September 2011, the total number of users of the 91 Series mobile phone software (including 91 Panda Reader, 91 PC Suite, 91 Panda Home and etc.), which is one of the advanced mobile phone applications in the PRC, has broken its own record.

The Group has further introduced updated versions of mobile games (including Dragon Master and 91 Farm) 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 development and innovation of Internet applications, contents and services of domestic and foreign small and medium enterprises and individual developers. The Group has also strengthened the content of mobile platform-based through cooperation with other mobile Internet enterprise for development.

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 platform in respective home markets and beyond.

As of 30 September 2011, the mobile Internet business of the Group has 306 employees, representing approximately 13.3% 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 September 2011, the Group's overall staff headcount was 2,307, of which 1,464 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.

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 for extending the life span of its products. As such, the Group's revenue base can be maximised.

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

In respect of its mobile Internet business, it is expected that the 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.

Online Games

MMORPGs

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

TRANSFORMERS Online

In May 2010, the Group entered a brand licensing agreement with Hasbro, a worldwide leader in children's and family leisure time products and services, for the exclusive rights to develop and publish in the PRC an MMORPG based on Hasbro's iconic TRANSFORMERS brand. The action-oriented PC online game "TRANSFORMERS Online" is expected to carry out its first closed beta testing in the end of 2011 and officially roll-out in 2012 in the PRC.

Dungeon Keeper Online

Since 2010, the Group has carried out four closed beta testings for the 3D MMORPG, Dungeon Keeper Online. The open beta is expected to be carried out in early 2012.

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. Three closed beta testings of icombo were completed in 2010 and final closed beta testing will be carried out in June 2012

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 its open beta testing will be carried out in December 2011.

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Age of Magic (魔法與蒸汽)*

The first self-developed ARPG online game emphasizes community interaction, which carries features of animated style, loveable and clear graphic design. We expect to carry out the first closed beta testing for this game in December 2011.

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 the platform building strategy which provides leading platform resources of the industry for small and medium-sized game developers at home and abroad to create a win-win situation for all parties.

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, subsidiaries concentrated in the mobile Internet business of the Company have commenced operations since April 2011 independently.

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 16% 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% 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.

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On 13 August 2011, all conditions precedent under the Share Purchase Agreement have been fulfilled or waived and the closing of the Share Purchase Agreement (the "SPA Closing") took place. 91 Limited issued and sold to the investors a total of 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.

On 14 September 2011, a note purchase agreement (the "Note Purchase Agreement") was entered into between 91 Limited, a subsidiary of the Company, and investors who are connected persons of the Company. Pursuant to the Note Purchase Agreement, 91 Limited agreed to issue and sell to the investors the notes (the "Note(s)") in an aggregate amount of USD5,000,000, and each investor, severally but not jointly, agreed to purchase from 91 Limited, such Note in the principal amount as prescribed in the Note Purchase Agreement and in each case, at a purchase price equal to 100% of such principal amount of the Note purchased by such investor.

All conditions precedent under the Note Purchase Agreement have been fulfilled or waived and the closing of the Note Purchase Agreement (the "NPA Closing") took place on 21 September 2011. 91 Limited issued the Notes to the investors in an aggregate amount of USD5,000,000 and the total purchase price of the Notes had been received by 91 Limited.

Further details of the Share Purchase Agreement, the SPA Closing, the Note Purchase Agreement and the NPA Closing are set out in the announcements of the Company dated 30 May 2011, 15 August 2011, 14 and 21 September 2011, respectively.

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 programs 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.

The construction of five major buildings of the Project such as the Pentagonal Building* (五角大樓) and the Heavenly Building* (天禧樓), has been completed. The area has been designated as the research and development and quality development zone of the Group and has been in use. The Group is currently establishing other infrastructure of the Project.

The TQ Building* (天晴樓), the design of which is based on the shape of a spaceship and is currently under construction, has been designated as the main building for research and development of the Company. It measures approximately 23,000 sq.m. in area with a total gross floor area of nearly 50,000 sq.m. These buildings, including the TQ Building* (天晴樓), will become the core research and development zone of the comic property of the Company. Currently, the TQ Building* (天晴樓) is in the interior design stage with the construction of its main building completed in August 2011. The Group held a capping ceremony in August 2011 to celebrate this significant milestone for the Project. The annexing building has been completed and its interior design and renovation are in progress. During the period under review, the excavation of Dragon Lake* (龍湖) has started, the design of Corsair Training Center* (海盜船培訓區) has been completed. The core research and development zone is expected to be completed and ready for use in 2012. Besides that, we are starting to carry out the constructions of staff quarters. There will be nearly 10,000 creative talents working in the area.

** For identification purpose only*

As at 30 September 2011, the Group had capital commitments in relation to the development of the Project of approximately RMB220.2 million, in which the Group had settled approximately RMB101.4 million.

During the period under review, the Group does not acquire any land, except for the acquisitions as stated in the circular of the Company dated 19 May 2010 and the announcement of the Company dated 25 October 2010. However, we have the intention to make further acquisition of land and construction projects on the Property, the Owned Land and new acquired land (if any) in the future for implementation of the Group's participation in the Project.

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

OTHER EVENTS

The Group started the talent optimization project from 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 should help to improve the efficiency in the operation, project management and office administrative processes.

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

As at 30 September 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
Liu Dejian *(Note 2)*	The Company	Beneficial owner and through controlled corporations	272,520,220(L)	51.74%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and through controlled corporations	272,320,220(L)	51.70%
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui *(Note 2)*	The Company	Beneficial owner and through controlled corporations	270,920,220 (L)	51.44%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and through a controlled corporation	14,784,000(L)	2.81%

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
Chao Guowei, Charles *(Note 5)*	The Company	Beneficial owner	597,019(L)	0.11%
Lee Kwan Hung *(Note 5)*	The Company	Beneficial owner	597,019(L)	0.11%
Liu Sai Keung, Thomas *(Note 5)*	The Company	Beneficial owner	597,019(L)	0.11%

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 35.33% 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 5.00% 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 35.33% and 4.80%, 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 6.26% 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 51.38% 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. On 22 July 2011, the Company granted 284,000 share options to each of Liu Dejian, Liu Luyuan and Zheng Hui.

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 2.45% of the issued share capital of the Company. Chen Hongzhen had been awarded 1,600,000 shares of the Company on 7 December 2009 and granted 284,000 share options of the Company on 22 July 2011, which in total represent 0.36% of the issued share capital of the Company. Accordingly, Chen Hongzhan is deemed to be interested in 2.81% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited and his direct beneficial interest in the issued share capital of the Company.

5. On 22 July 2011, the Company granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.

Save as disclosed above, to the best knowledge of the Directors, as at 30 September 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.

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 September 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 *(Note 1)*	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	35.33%
Fitter Property Inc.	The Company	Beneficial owner	25,260,400(L)	4.80%

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
Eagle World International Inc. *(Note 2)*	The Company	Beneficial owner	32,952,920(L)	6.26%
Flowson Company Limited *(Note 2)*	The Company	Through a controlled corporation	32,952,920(L)	6.26%
IDG Group *(Note 3)*	The Company	Beneficial owner	78,333,320(L)	14.87%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%
Edmond de Rothschild Asset Management Hong Kong Limited *(Note 4)*	The Company	Beneficial owner	26,827,500(L)	5.09%
Edmond de Rothschild Asset Management *(Note 4)*	The Company	Through a controlled corporation	26,827,500(L)	5.09%

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 6.26% 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%, 9.87%, 2.02% 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.. IDGAccel China Growth Fund GP Associates Ltd. is held as to 35% 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.

4. Edmond de Rothschild Asset Management ("EdRAM"), is an asset management company, registered with the Autorité des marchés financiers in France. Edmond de Rothschild Asset Management Hong Kong Limited ("EdRAM HK") is 100% owned by EdRAM and is approved by the Securities and Futures Commission of Hong Kong. EdRAM HK is a delegated investment manager of funds (focusing on Chinese and Asia ex-Japan markets) managed by EdRAM. EdRAM is deemed to be interested in 5.09% of the issued share capital of the Company through its shareholding in EdRAM HK.

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 September 2011.

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 nine months ended 30 September 2011 are as follows:

Grantee	Date of grant	Exercise Price	Number of share options As at 1 January 2011	Granted	Exercised	Lapsed	As at 30 September 2011
		HKD					
Executive Directors							
Liu Dejian	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	28.04.2011	4.80	—	284,000	—	284,000	—
	22.07.2011	4.60	—	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	—
	22.07.2011	4.60	—	284,000	—	—	284,000
Zheng Hui	28.04.2011	4.80	—	284,000	—	284,000	—
	22.07.2011	4.60	—	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	—
	22.07.2011	4.60	—	284,000	—	—	284,000
Independent non-executive Directors							
Chao Guowei, Charles	28.04.2011	4.80	—	400,000	—	400,000	—
	22.07.2011	4.60	—	400,000	—	—	400,000
Lee Kwan Hung	28.04.2011	4.80	—	400,000	—	400,000	—
	22.07.2011	4.60	—	400,000	—	—	400,000
Liu Sai Keung, Thomas	28.04.2011	4.80	—	400,000	—	400,000	—
	22.07.2011	4.60	—	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	—	354,000	13,400,900
	22.07.2011	4.60	—	1,345,500	—	23,000	1,322,500
Total			6,800,000	19,772,400	—	2,713,000	23,859,400

Notes:

1. 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 HK$4.80.

2. On 22 July 2011, 3,681,500 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 22 July 2011 (the trading day immediately before the grant of the share options) was HK$4.60.

3. During the year under review, no share options were exercised by any Directors or chief executive 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 September 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 announcement.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

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 nine months ended 30 September 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 confirmed that they have complied with the required standard of dealings as set out on 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 nine months ended 30 September 2011.

AUDIT COMMITTEE

In compliance with Rules 3.21 and 3.22 of the Listing Rules, the Company established the 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 unaudited consolidated financial results for the three months and nine months ended 30 September 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2011, the Company repurchased a total of 3,618,000 shares on the Stock Exchange at an aggregate consideration of HKD14,981,000.00 before expenses.

Details of the share repurchase are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HKD	*HKD*	*HKD*
July 2011	1,871,500	4.75	4.51	8,661,655.00
September 2011	1,746,500	3.85	3.29	6,319,345.00

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

Hong Kong, 30 November 2011

As at the date of this announcement, the Board comprises four executive Directors, namely Liu Dejian, Liu Luyuan, Zheng Hui and Chen Hongzhan; one non-executive Director, namely Lin Dongliang; and three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.