NetDragon Websoft Inc.
網龍網絡有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 777)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The board (the "Board") of directors (the "Director(s)") of NetDragon Websoft Inc. (the "Company") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

RESULTS

The Group's audited profit attributable to the owners of the Company for the year ended 31 December 2011 was approximately RMB135.2 million, representing an increase of approximately 286.7% compared with that of the year ended 31 December 2010. Basic and diluted earnings per share for the year ended 31 December 2011 were approximately RMB25.85 cents and RMB25.85 cents, respectively.

DIVIDENDS

The Board has recommended the payment of a final dividend of HKD0.12 per share for the year ended 31 December 2011 (year ended 31 December 2010: HKD0.02 per share), subject to the approval of the shareholders at the forthcoming annual general meeting (the "AGM") of the Company to be held on Friday, 18 May 2012. Such proposed dividends if approved by the shareholders at the AGM, will be paid on or before Thursday, 7 June 2012 to shareholders whose names appear on the register of members of the Company on Thursday, 31 May 2012.

RESULTS

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2011 together with the comparative figures in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

		2011	2010
	NOTES	***RMB'000***	*RMB'000*
Revenue	4	**760,974**	531,772
Cost of revenue		**(75,032)**	(66,333)
Gross profit		**685,942**	465,439
Other income and gains	4	**38,156**	60,864
Selling and marketing expenses		**(140,340)**	(101,993)
Administrative expenses		**(210,941)**	(182,022)
Development costs		**(159,269)**	(162,234)
Other expenses		**(11,594)**	(10,392)
Loss on changes in fair value of conversion option derivative		**(17,792)**	—
Finance costs	5	**(3,806)**	—
Share of losses of associates		**(581)**	—
Profit before taxation		**179,775**	69,662
Taxation	7	**(44,532)**	(34,769)
Profit for the year	8	**135,243**	34,893
Other comprehensive (expense) income:			
Exchange differences arising on translation of foreign operations		**(1,452)**	(172)
Gain on revaluation of property		**—**	673
		(1,452)	501
Total comprehensive income for the year		**133,791**	35,394

	NOTES	2011 RMB'000	2010 RMB'000
Profit for the year attributable to:			
- Owners of the Company		**135,161**	34,949
- Non-controlling interests		**82**	(56)
		135,243	34,893
Total comprehensive income attributable to:			
- Owners of the Company		**133,709**	35,450
- Non-controlling interests		**82**	(56)
		133,791	35,394
		RMB cents	*RMB cents*
Earnings per share	10		
- Basic		**25.85**	6.64
- Diluted		**25.85**	6.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	NOTES	**2011** **RMB'000**	2010 RMB'000
Non-current assets			
Property, plant and equipment		**192,119**	128,534
Prepaid lease payments	11	**86,298**	87,753
Investment property		**15,809**	14,551
Deposit paid for acquisition of property, plant and equipment		**19,050**	19,050
Intangible assets		**4,520**	13,136
Interests in associates	12	**12,669**	—
Available-for-sale investments	13	**4,000**	4,000
Loan receivables		**6,314**	5,819
Deferred tax assets	14	**54**	54
		340,833	272,897
Current assets			
Prepaid lease payments	11	**1,784**	1,784
Loan receivables		**1,091**	893
Trade receivables	15	**41,555**	24,393
Other receivables, prepayments and deposits		**41,429**	40,072
Held for trading investments		**—**	1,079
Amount due from a related company		**1,200**	171
Bank deposits		**40,000**	340,828
Bank balances and cash		**1,428,928**	877,823
		1,555,987	1,287,043

	NOTES	2011 RMB'000	2010 RMB'000
Current liabilities			
Trade payables	16	**5,001**	519
Other payables and accruals		**121,353**	58,218
Deferred income		**25,528**	23,119
Amounts due to related companies		**965**	—
Amount due to a shareholder		**—**	5,328
Promissory notes	18	**30,623**	—
Income tax payable		**42,849**	21,599
		226,319	108,783
Net current assets		**1,329,668**	1,178,260
Total assets less current liabilities		**1,670,501**	1,451,157
Non-current liabilities			
Redeemable convertible preferred shares	17	**131,675**	—
Conversion option derivative liability	17	**39,932**	—
		171,607	—
Net assets		**1,498,894**	1,451,157
Capital and reserves			
Share capital		**38,226**	39,264
Share premium and reserves		**1,461,126**	1,412,433
Equity attributable to owners of the Company		**1,499,352**	1,451,697
Non-controlling interests		**(458)**	(540)
		1,498,894	1,451,157

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Equity 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*	*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 year	—	—	—	—	—	—	—	—	—	—	—	34,949	34,949	(56)	34,893
Other comprehensive income (expenses) for the year	—	—	—	—	—	—	—	673	—	—	(172)	—	501	—	501
Total comprehensive income (expenses) for the year	—	—	—	—	—	—	—	673	—	—	(172)	34,949	35,450	(56)	35,394
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	6,268	—	—	6,268	—	6,268
Final dividend for 2009 paid	—	—	—	—	—	—	(23,270)	—	—	—	—	—	(23,270)	—	(23,270)
Interim dividend for 2010 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(23,056)	(23,056)	—	(23,056)
Final dividend for 2010 proposed	—	—	—	—	—	—	8,994	—	—	—	—	(8,994)	—	—	—
Awarded shares vested to employees	—	—	—	—	—	—	—	—	2,263	(1,370)	—	(893)	—	—	—
Transfers	—	—	—	—	—	6,697	—	—	—	—	—	(6,697)	—	—	—
	—	—	—	—	—	6,697	(14,276)	—	2,263	4,898	—	(39,640)	(40,058)	—	(40,058)
At 31 December 2010	39,264	1,157,364	1,963	—	9,946	121,339	8,994	673	(8,494)	9,539	(56,663)	167,772	1,451,697	(540)	1,451,157
Profit for the year	—	—	—	—	—	—	—	—	—	—	—	135,161	135,161	82	135,243
Other comprehensive expenses for the year	—	—	—	—	—	—	—	—	—	—	(1,452)	—	(1,452)	—	(1,452)
Total comprehensive (expenses) income for the year	—	—	—	—	—	—	—	—	—	—	(1,452)	135,161	133,709	82	133,791
Deemed contribution from a substantial shareholder	—	—	—	2,209	—	—	—	—	—	—	—	—	2,209	—	2,209
Repurchase and cancellation of shares	(1,038)	(44,359)	1,038	—	—	—	—	—	—	—	—	(1,038)	(45,397)	—	(45,397)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	10,085	—	—	10,085	—	10,085
Final dividend for 2010 paid	—	—	—	—	—	—	(8,994)	—	—	—	—	—	(8,994)	—	(8,994)
Interim dividend for 2011 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(43,957)	(43,957)	—	(43,957)
Final dividend for 2011 proposed	—	—	—	—	—	—	50,062	—	—	—	—	(50,062)	—	—	—
Awarded shares vested to employees	—	—	—	—	—	—	—	—	942	(570)	—	(372)	—	—	—
Transfers	—	—	—	—	—	19,544	—	—	—	—	—	(19,544)	—	—	—
	(1,038)	(44,359)	1,038	2,209	—	19,544	41,068	—	942	9,515	—	(114,973)	(86,054)	—	(86,054)
At 31 December 2011	38,226	1,113,005	3,001	2,209	9,946	140,883	50,062	673	(7,552)	19,054	(58,115)	187,960	1,499,352	(458)	1,498,894

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 *RMB'000*	2010 *RMB'000*
NET CASH FROM OPERATING ACTIVITIES	**276,476**	104,515
INVESTING ACTIVITIES		
Acquisition of assets through acquisition of a subsidiary	**—**	(58,149)
Proceeds from disposal of interests in jointly controlled entities	**—**	4,000
Other investing cash flows	**194,938**	162,188
NET CASH FROM INVESTING ACTIVITIES	**194,938**	108,039
FINANCING ACTIVITIES		
Proceeds from issue of promissory notes	**31,774**	—
Proceeds from issue of redeemable convertible preferred shares	**151,857**	—
Dividends paid	**(52,951)**	(46,326)
(Repayment of) advance from a shareholder	**(5,328)**	5,328
Payment for repurchase of shares	**(45,397)**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**79,955**	(40,998)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**551,369**	171,556
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**877,823**	705,053
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(264)**	1,214
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,428,928**	877,823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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. Its ultimate controlling shareholders are Messrs. Liu Dejian, Liu Luyuan and Zheng Hui (the "Ultimate Conrolling Shareholders"). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 2209, 22nd Floor, Shun Tak Centre, West Tower, 200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are engaged in online game development, including game design, programming and graphics and online game operation as well as mobile Internet business.

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRSs	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 new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures - Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
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 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. Based on the Group's financial assets and financial liabilities as at 31 December 2011, the directors anticipate that the adoption of HKFRS 9 in the future will affect the classification and measurement of the Group's available-for-sale investments and have no significant impact on the amounts of the Group's other financial assets and financial liabilities. Regarding the Group's available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 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 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 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. 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. The Directors anticipate that the application of these five standards may not have significant impact on amounts reported in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group's consolidated financial statements for annual periods beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The Directors of the Company anticipate that the application of other new or revised standards may not have material impact on the results and the financial position of the Group.

4. REVENUE, OTHER INCOME AND GAINS

	2011	2010
	RMB'000	*RMB'000*
Revenue		
Online game revenue	**701,565**	531,772
Mobile Internet business revenue (Note a)	**59,409**	—
	760,974	531,772
Other income and gains		
Gain on fair value changes of investment property	**1,990**	3,573
Gain on disposal of jointly controlled entities	**—**	4,000
Government grants (Note b)	**18,659**	26,759
Interest income	**11,755**	12,344
Mobile Internet business income (Note a)	**—**	6,656
Net gain on held for trading investments	**1,348**	4,655
Rental income, net of nil outgoings (2010: RMB1,000)	**303**	96
Others	**4,101**	2,781
	38,156	60,864

Notes:

a. For the year ended 31 December 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 year. Therefore, the mobile Internet business income has been recorded as revenue for the year ended 31 December 2011 whereas it had been classified as other income and gains for the year ended 31 December 2010 as mobile Internet business was not considered as principal activity of the Group for the year ended 31 December 2010.

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

5. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Interest on:		
- Promissory notes	**1,309**	—
- Redeemable convertible preferred shares (Note 17)	**2,497**	—
	3,806	—

6. SEGMENT INFORMATION

Information reported to the executive directors, 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 year ended 31 December 2011, 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 nature of services provided, which are online game and mobile Internet business. Accordingly, it is determined that the Group was engaged in two operating segments, 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:

2011

	Online game	**Mobile Internet business**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue	**701,565**	**59,409**	**760,974**
Segment profit (loss)	**279,359**	**(9,374)**	**269,985**
Unallocated income and gains			**19,538**
Unallocated expenses			**(109,167)**
Share of losses of associates			**(581)**
Profit before taxation			**179,775**

2010 (Restated)

	Online game	Mobile Internet business	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue	531,772	6,656	538,428
Less: Classified as other income and gains			(6,656)
Consolidated total			531,772
Segment profit (loss)	124,515	(16,169)	108,346
Unallocated income and gains			20,966
Unallocated expenses			(59,650)
Profit before taxation			69,662

The CODM assesses segment profit or loss using a measure of operating result 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, loss on changes in fair value of conversion option derivative). 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:

	2011	2010
	RMB'000	*RMB'000*
Online game	**1,513,587**	1,284,684
Mobile Internet business	**216,745**	5,755
Total segment assets	**1,730,332**	1,290,439
Unallocated	**166,488**	269,501
	1,896,820	1,559,940

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

Geographical information

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

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

	2011	2010
	RMB'000	*RMB'000*
PRC	**630,948**	414,003
United States of America ("USA")	**125,365**	113,643
Others	**4,661**	4,126
	760,974	531,772

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

	2011	2010
	RMB'000	*RMB'000*
PRC	**291,536**	219,082
Hong Kong	**38,835**	43,919
USA	**94**	23
	330,465	263,024

No single customers of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2011 and 2010.

7. TAXATION

	2011	2010
	RMB'000	*RMB'000*
The charge comprises:		
Hong Kong Profits Tax	**6,531**	1,649
The PRC Enterprise Income Tax ("EIT")		
- Current year	**27,681**	9,218
- Withholding tax	**10,100**	3,591
- Attributable to change in concessionary rates for technical service income	**—**	20,082
	37,781	32,891
Taxation in other jurisdiction	**220**	229
	44,532	34,769

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

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

Fujian TQ Digital Inc. ("TQ Digital") is a wholly foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 10 September 2009. Pursuant to the Circular on Some Preferential Policies for the EIT (關於實施高新技術企業所得稅優惠有關問題的通知) issued by the State Administration of Taxation (the "SAT")(國家稅務總局) on 22 April 2009, TQ Digital is entitled to 50% tax reduction on a preferential income tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years and TQ Digital continued to be recognised as a hi-tech enterprise for the years ended 31 December 2011 and 2010.

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

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

NetDragon (Shanghai) was approved to be a hi-tech enterprise in 2009 and has obtained the approval to enjoy 50% reduction in EIT rate for the period from 1 January 2009 to 31 December 2011. Thus, NetDragon (Shanghai) was entitled to pay EIT at the reduced tax rate of 12.5% for the year ended 31 December 2011 (2010: 12.5%).

Pursuant to the relevant laws and regulations in the PRC, Fujian TQ Online Interactive Inc. ("TQ Online") is exempted from PRC EIT for two years starting from its first profit making year, followed by a 50% reduction for the next three years. Thus, TQ Online was entitled to pay EIT at the reduced tax rate of 12.5% for the year ended 31 December 2011 (2010: Nil).

For the year ended 31 December 2011, the USA income tax rates applicable to NetDragon Websoft Inc. are 34% (2010: 34%) for federal tax and 8.84% (2010: 8.84%) for state income tax.

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

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

	2011	2010
	RMB'000	*RMB'000*
Profit before taxation	**179,775**	69,662
Tax at the applicable tax rate of 25% (2010: 25%) (Note a)	**44,944**	17,416
Tax effect of share of losses of associates	**145**	—
Tax effect of income not taxable for tax purpose	**(3,907)**	(156)
Tax effect of expenses not deductible for tax purpose	**22,243**	9,903
Tax effect of temporary difference not recognised	**6,175**	6,546
Utilisation of tax losses previously not recognised	**(3,279)**	(2,747)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,353)**	(829)
Additional tax benefit on research and development expenses (Note b)	**(6,632)**	(7,612)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	**(22,029)**	(11,377)
Withholding tax on undistributed earnings of the PRC subsidiary	**10,100**	3,591
Tax effect of change in concessionary rates applied retrospectively	**—**	20,082
Others	**125**	(48)
Tax charge for the year	**44,532**	34,769

Notes:

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2011 and 2010.

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

Details of deferred taxation are set out in note 14.

8. PROFIT FOR THE YEAR

	2011	2010
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Staff costs:		
Directors' emoluments	**5,437**	6,377
Other staff costs		
Salaries and other benefits	**234,451**	224,018
Contributions to retirement benefits schemes	**19,575**	17,545
Share-based payments expense	**7,337**	2,187
	266,800	250,127
Auditor's remuneration		
- audit services	**1,288**	611
- non-audit services	**1,550**	906
	2,838	1,517
Allowances on trade receivables	**179**	16
Amortisation of intangible assets (included in cost of revenue)	**7,427**	4,818
Amortisation of intangible assets (included in other expenses)	**3,936**	2,038
Release of prepaid lease payments (included in administrative expenses)	**1,455**	566
Depreciation of property, plant and equipment	**35,923**	51,447
Operating lease rentals in respect of		
- rented premises	**15,346**	22,020
- computer equipment	**38,782**	36,359
Net foreign exchange loss	**15,202**	14,438
Loss on disposal of property, plant and equipment	**42**	366

9. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2011 Interim - HKD0.10 (2010: 2010 Interim dividend of HKD0.05) per share	**43,957**	23,056
2010 Final - HKD0.02 (2010: 2009 Final dividend of HKD0.05) per share	**8,994**	23,270
	52,951	46,326

The final dividend of HKD0.12 (2010: HKD0.02) per share has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting, amounting to approximately RMB50,062,000 (2010: RMB8,994,000).

10. EARNINGS PER SHARE

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

	2011	2010
	RMB'000	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share — profit for the year attributable to the owners of the Company	**135,161**	34,949

	Number of shares	
	2011	2010
	'000	*'000*
Number of shares for the purpose of basic and diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**522,948**	526,675

The computation of diluted earnings per share for the year ended 31 December 2011 have not taken into account (i) the effect of potential shares granted under share option scheme because the exercise price of the share option was higher than the average market price of the shares for the year; and (ii) redeemable convertible preferred shares issued by a subsidiary of the Company since it is anti-dilutive.

The computation of diluted earnings per share for the year ended 31 December 2010 have not taken into account the effect of potential shares granted under share option scheme because the exercise price of the share option was higher than the average market price of the shares for the year.

11. PREPAID LEASE PAYMENTS

	2011	2010
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Current assets	**1,784**	1,784
Non-current assets	**86,298**	87,753
	88,082	89,537

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

12. INTERESTS IN ASSOCIATES

	2011	2010
	RMB'000	*RMB'000*
Unlisted investments outside Hong Kong:		
Cost of investments	**13,250**	—
Share of post-acquisition losses	**(581)**	—
	12,669	—

As at 31 December 2011, the Group had interests in the following associates:

Name of entities	Percentage of registered capital directly held by the Group	Country of establishment/ operation	Registered capital	Principal activities
廈門易用軟件技術有限公司 (「廈門易用」) (E-Yong Websoft Inc*) *(Note a)*	50%	PRC	RMB3,000,000	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 enquires
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
北京九康益電子商務有限公司 (「北京九康」) (Beijing 9YEE E-Commerce Co. Ltd.*) *(Note b)*	40%	PRC	RMB15,000,000	Provision for sales of health food through mobile Internet

Notes:

a. During the year, 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 RMB2,618,000, respectively. The Group holds 12% of the equity interests of 濟南四葉草 and have right to appoint 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 entities are newly established during the year ended 31 December 2011.

* *For identification purpose only*

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

	2011	2010
	RMB'000	*RMB'000*
Assets	**24,467**	—
Liabilities	**(461)**	—
Net assets	**24,006**	—
Group's share of net assets of associates	**8,910**	—
Revenue	**384**	—
Loss for the year	**1,897**	—
Group's share of loss for the year	**581**	—

13. AVAILABLE-FOR-SALE INVESTMENTS

	2011 & 2010
	RMB'000
Unlisted equity securities in the PRC	4,000

The above unlisted equity investments represent 9.5% interest in 福建楊振華851生物科技股份有限公司 (Fujian Yangzhenhua 851 Bio-Engineering Inc.) which was established in the PRC. Mr. Liu Dejian and Mr. Zheng Hui, Directors, are directors of the entity.

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

14. DEFERRED TAX ASSETS

The followings are the deferred tax assets recognised by the Group:

	Development costs
	RMB'000
At 1 January 2010, 31 December 2010 and 31 December 2011	54

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB78,858,000 (2010: RMB54,158,000). No deferred tax liability has been recognised because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The Group also has not recognised deferred tax assets arising from tax losses amounting to approximately RMB192,615,000 (2010: RMB205,731,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. Included in unrecognised tax losses, approximately RMB191,853,000 (2010: RMB204,969,000) will expire in 2015. Other tax losses may be carried forward indefinitely.

15. TRADE RECEIVABLES

In 2011, the Group allows a credit period ranging from 30 to 90 days (2010: 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.

	2011	2010
	RMB'000	*RMB'000*
0 - 30 days	**22,261**	18,250
31 - 60 days	**5,364**	4,876
61 - 90 days	**6,737**	1,000
Over 90 days	**7,193**	267
Total	**41,555**	24,393

Before accepting any new customer, the Group uses an internal credit assessment policy to assess the potential customer's credit quality and define credit limits by customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB15,839,000 (2010: RMB6,143,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2011	2010
	RMB'000	*RMB'000*
31 - 60 days	**3,577**	4,876
61 - 90 days	**5,069**	1,000
Over 90 days	**7,193**	267
Total	**15,839**	6,143

Movement in the allowance for doubtful debts

	2011	2010
	RMB'000	*RMB'000*
At beginning of year	**311**	295
Allowances recognised on receivables	**179**	16
At end of year	**490**	311

Included in the allowance for doubtful debts are individually impaired trade receivables within an aggregate balance of RMB490,000 (2010: RMB311,000) of which the debtors have been in dispute with the Group.

16. TRADE PAYABLES

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

	2011	2010
	RMB'000	*RMB'000*
0 - 90 days	**4,641**	508
91 - 180 days	**323**	—
181 - 365 days	**26**	—
Over 365 days	**11**	11
Total	**5,001**	519

17. REDEEMABLE CONVERTIBLE PREFERRED SHARES

91 Limited, a subsidiary of the Company issued 15,384,000 series A redeemable convertible preferred shares (the "Series A Preferred Shares") of par value of USD0.0001 each at an aggregate issue price of USD3,999,840 (RMB25,839,000) to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investor L.P. and IDG-Accel China Growth Fund L.P. (collectively referred to as "IDG Investors"), members of a substantial shareholder of the Company, on 13 August 2011. The subsidiary also issued 16,025,000 series B redeemable convertible preferred shares (the "Series B Preferred Shares") of par value of USD0.0001 each at an aggregate issue price of USD20,000,000 (equivalent to approximately RMB151,857,000) to Vertex Asia Growth Ltd., IP Cathay II, L.P. and DT Capital China Growth Fund, L.P. (collectively referred as "Series B Investors") on 15 and 30 December 2011. Both Series A and Series B Preferred Shares are denominated in United Stated dollars.

Conversion

Both Series A and Series B 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 of Series A Preferred Shares and 4th anniversary of the issue date of Series B Preferred Shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially 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.

Series A 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 USD150,000,000 and the aggregate net proceeds to the subsidiary of the Company are in excess of USD50,000,000. Series B Peferred 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 USD500,000,000 and the aggregate net proceeds to the subsidiary of the Company are in excess of USD150,000,000.

Dividends

The holders of outstanding Series A 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 Series A 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.

The holders of outstanding Series B 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 Series A redeemable convertible preferred shares and ordinary shares in such calendar year. The right to receive dividends on Series B redeemable convertible preferred shares shall not be cumulative, and no right to such dividends shall accrue to holders of Series B 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 Series A redeemable convertible preferred shares was issued, by a written request signed by holders of at least two-thirds of the Series A redeemable convertible preferred shares, all outstanding Series A redeemable convertible preferred shares shall be redeemed at original issue price per redeemable convertible preferred shares of USD0.26 plus cumulative rate of return of 5% per annum, and any declared but unpaid dividends on such Series A redeemable convertible preferred shares.

At any time after the 4th anniversary of the original issue date of the Series B redeemable convertible preferred shares of a written request signed by holders of more than two-thirds of the Series B redeemable convertible preferred shares, all outstanding Series B redeemable convertible preferred shares shall be redeemed at original issue price per redeemable convertible preferred shares of approximately USD1.248 plus cumulative rate of return of 12% per annum, and any declared but unpaid dividends on such Series B redeemable convertible preferred shares.

Liquidation

The holders of the Series A 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 Series A redeemable convertible preferred shares shall be entitled to receive the original issue price of USD0.26 per Series A redeemable convertible preferred share plus 5 % per annum cumulative rate of return upon liquidation.

The holders of the Series B redeemable convertible preferred shares have preference over holders of Series A redeemable convertible preferred shares and 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 Series B redeemable convertible preferred shares shall be entitled to receive the original issue price of approximately USD1.248 per Series B redeemable convertible preferred shares plus 12 % per annum cumulative rate of return upon liquidation.

Both Series A and Series B redeemable convertible preferred shares contain two components, liability component and conversion option derivative. The effective interest rate of the liability component of the Series A and Series B redeemable convertible preferred shares is 16.834% per annum, respectively. 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 and other embedded derivatives of the Series A and Series B redeemable convertible preferred shares for the year are set out as below:

	Liability component	Conversion option derivative
	RMB'000	*RMB'000*
At initial recognition	129,435	22,422
Exchange realignment	(257)	(282)
Interest charge	2,497	—
Loss on changes in fair value	—	17,792
	131,675	39,932

The fair value of the 91 Limited is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 18.97%, 18.84%, 18.45% and 18.45% were used as at 13 August 2011, 15 December 2011, 30 December 2011 and 31 December 2011, respectively.

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, 15 December 2011, 30 December 2011 and 31 December 2011 of Series A and Series B redeemable convertible preferred shares were as follows:

Series A redeemable convertible preferred shares

	13 August 2011	31 December 2011
Risk-free interest rate (i)	1.04%	0.81%
Expected volatility (ii)	51.06%	71.83%

Series B redeemable convertible preferred shares

	15 December 2011	30 December 2011	31 December 2011
Risk-free interest rate (i)	0.64%	0.62%	0.62%
Expected volatility (ii)	72.87%	72.17%	72.17%

Notes

(i) Risk-free interest rate was used by reference to the United States Treasury Bond Rate at the valuation date; and

(ii) Expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of the comparable companies.

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.

18. PROMISSORY NOTES

On 21 September 2011, 91 Limited, a subsidiary of the Company has issued the promissory notes with a total principal amount of USD5,000,000 (equivalent to approximately RMB31,774,000) to IDG Investors to enhance the working capital and strengthen the capital base and financial position of 91 Limited's subsidiaries, which are engaged in mobile Internet business and for further investments by 91 Limited. 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. Subsequent to the end of reporting period, all the promissory notes were converted into 4,006,250 shares of series B redeemable convertible preferred shares at conversion price of approximately USD1.248 per Series B redeemable convertible preferred shares on 20 February 2012.

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 the applicable conversion price as determined at the time of conversion. 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 convertible preferred shares of the subsidiary of the Company at the time of conversion upon mutually agreed by the subsidiary of the Company and note holders.

The valuation of the promissory notes as of 21 September 2011 was determined using Binomial option pricing model based on the present value of the cash flow projections using 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. The fair value of the promissory notes on 21 September 2011 is approximately USD4,652,000 (equivalent to approximately RMB29,565,000) and the difference of approximately USD348,000 (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.

The conversion option of the promissory notes is insignificant as at 21 September 2011 and 31 December 2011.

OPERATION INFORMATION

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

	For the three months ended				
	31 December 2011	30 September 2011	30 June 2011	31 March 2011	31 December 2010
PCU	**612,000**	569,000	643,000	546,000	542,000
ACU	**310,000**	300,000	311,000	246,000	232,000

Note: As at 31 December 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 games was approximately 612,000 for the three months ended 31 December 2011, representing an increase of approximately 7.6% from the three months ended 30 September 2011 and representing an increase of approximately 12.9% from the three months ended 31 December 2010.

We also recorded the ACU for online games of approximately 310,000 for the three months ended 31 December 2011, which represented an increase of approximately 3.3% from the three months ended 30 September 2011 and represented an increase of approximately 33.6% from the three months ended 31 December 2010.

FINANCIAL PERFORMANCE HIGHLIGHTS
FOR THE YEAR ENDED 31 DECEMBER 2011

The following table sets forth the comparative figures for the years ended 31 December 2011 and 2010:

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Revenue	**760,974**	531,772
Cost of revenue	**(75,032)**	(66,333)
Gross profit	**685,942**	465,439
Other income and gains	**38,156**	60,864
Selling and marketing expenses	**(140,340)**	(101,993)
Administrative expenses	**(210,941)**	(182,022)
Development costs	**(159,269)**	(162,234)
Other expenses	**(11,594)**	(10,392)
Loss on changes in fair value of conversion option derivative	**(17,792)**	—
Finance costs	**(3,806)**	—
Share of losses of associates	**(581)**	—
Profit before taxation	**179,775**	69,662
Taxation	**(44,532)**	(34,769)
Profit for the year	**135,243**	34,893
Profit for the year attributable to:		
- Owners of the Company	**135,161**	34,949
- Non-controlling interests	**82**	(56)
	135,243	34,893

Revenue

Revenue increased by approximately 43.1% to approximately RMB761.0 million for the year ended 31 December 2011 from approximately RMB531.8 million for the year ended 31 December 2010.

Online game

Our online game revenue for the year ended 31 December 2011 was approximately RMB701.6 million, representing an increase of approximately 31.9% as compared to approximately RMB531.8 million for the year ended 31 December 2010.

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

	For the year ended 31 December			
	2011		2010	
	RMB'000	***% of online game revenue***	*RMB'000*	*% of online game revenue*
PRC	**572,470**	**81.6**	414,003	77.9
Overseas	**129,095**	**18.4**	117,769	22.1
	701,565	**100.0**	531,772	100.0

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The online game revenue derived from the PRC for the year ended 31 December 2011 was approximately RMB572.5 million, representing an increase of approximately 38.3% over the year ended 31 December 2010.

The online game revenue derived from overseas markets for the year ended 31 December 2011 was approximately RMB129.1 million, representing an increase of approximately 9.6% over the year ended 31 December 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 segregation of its mobile Internet business in 2011 helps the Group to maximize the potential valuation. For the year ended 31 December 2011, revenue generated from the mobile Internet business was approximately RMB59.4 million, representing approximately 7.8% of the total revenue.

While compared with mobile Internet business revenue, which was previously classified as "Other income and gains" for the year ended 31 December 2010 was approximately RMB6.7 million, representing an increase of approximately 792.6%.

Fourth Quarter of 2011

Revenue

Revenue for the fourth quarter of 2011 was approximately RMB217.2 million representing an increase of approximately 7.1% from the third quarter of 2011 and an increase of approximately 50.9% over the same period in 2010.

However, the online game revenue for the fourth quarter of 2011 was approximately RMB192.5 million, representing an increase of approximately 4.9% from the third quarter of 2011 and an increase of approximately 33.7% over the same period in 2010.

Besides, the mobile Internet business revenue for the fourth quarter of 2011 was approximately RMB24.7 million, representing an increase of approximately 28.4% from the third quarter of 2011 and an increase of approximately 489.5% over the same period in 2010, which was previously classified as "Other income and gains".

Cost of revenue

Cost of revenue for the fourth quarter of 2011was approximately RMB 28.3 million, representing an increase of approximately 57.1% from the third quarter of 2011and an increase of approximately 93.9% over the same period in 2010.

Other income and gains

Other income and gains of approximately RMB 17.4 million were recorded for the fourth quarter of 2011, compared to other income and gains that of approximately RMB 5.3 million and approximately RMB 37.4 million for the third 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 year ended 31 December 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 fourth quarter of 2010, mobile Internet business income was approximately RMB4.2 million.

Selling and marketing expenses

Selling and marketing expenses for the fourth quarter of 2011 were approximately RMB46.3 million, representing an increase of approximately 34.9% from the third quarter of 2011 and an increase of approximately 90.6% over the same period in 2010.

Administrative expenses

Administrative expenses for the fourth quarter of 2011 were approximately RMB59.5 million, representing an increase of approximately 6.4% from the third quarter of 2011 and representing an increase of approximately 19.6% over the same period in 2010.

Development costs

Development costs for the fourth quarter of 2011 were approximately RMB47.4 million, representing an increase of approximately 30.6% from the third quarter of 2011 and a decrease of approximately 5.0% over the same period in 2010.

Other expenses

Other expenses for the fourth quarter of 2011 were approximately RMB5.0 million, representing an increase of approximately 29.6% from the third quarter of 2011 and a decrease of approximately 9.1% over the same period in 2010.

Profit for the period

Profit for the period for the fourth quarter of 2011 was approximately RMB7.7 million, representing a decrease of approximately84.5% from the third quarter of 2011 and a decrease of approximately 17.4% over the same period in 2010. As a percentage of revenue, profit for the period accounted for approximately 3.6% for the fourth quarter of 2011, compared to approximately 24.6% for the third quarter of 2011 and approximately 6.5% 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 fourth quarter of 2011 was approximately RMB7.9 million, representing a decrease of approximately 84.2% from the third quarter of 2011 and a decrease of approximately 15.4% over the same period in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2011 Compared to Third Quarter of 2011

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

	Three months ended	
	31 December 2011	30 September 2011
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**217,176**	202,739
Cost of revenue	**(28,337)**	(18,043)
Gross profit	**188,839**	184,696
Other income and gains	**17,369**	5,303
Selling and marketing expenses	**(46,277)**	(34,310)
Administrative expenses	**(59,529)**	(55,946)
Development costs	**(47,387)**	(36,280)
Other expenses	**(5,047)**	(3,894)
Loss on changes in fair value of conversion option derivative	**(17,582)**	(210)
Finance costs	**(3,490)**	(316)
Share of losses of associates	**(439)**	(65)
Profit before taxation	**26,457**	58,978
Taxation	**(18,710)**	(9,124)
Profit for the period	**7,747**	49,854
Profit for the period attributable to:		
- Owners of the Company	**7,861**	49,771
- Non-controlling interests	**(114)**	83
	7,747	49,854

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 31 December 2011 was approximately RMB217.2 million, representing an increase of approximately 7.1% as compared to approximately RMB202.7 million for the three months ended 30 September 2011.

Online game

Our online game revenue for the three months ended 31 December 2011 was approximately RMB 192.5 million, representing an increase of approximately 4.9% as compared to approximately RMB 183.5 million for the three months ended 30 September 2011.

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

	Three months ended			
	31 December 2011		30 September 2011	
	RMB'000	***% of online game revenue***	*RMB'000*	*% of online game revenue*
PRC	**164,209**	**85.3**	148,003	80.6
Overseas	**28,304**	**14.7**	35,530	19.4
	192,513	**100.0**	183,533	100.0

The online game revenue derived from the PRC for the three months ended 31 December 2011 was approximately RMB164.2 million, representing an increase of approximately 10.9% as compared to approximately RMB148.0 million for the three months ended 30 September 2011. The increase in online game revenue derived from the PRC was mainly due to the release of new Chinese expansion pack "Trumpet of Legionaire" of Endemons Online in the fourth quarter of 2011.

The online game revenue derived from overseas markets for the three months ended 31 December 2011 was approximately RMB28.3 million, representing a decrease of approximately 20.3% as compared to approximately RMB35.5 million for the three months ended 30 September 2011.

Mobile Internet business

The mobile Internet business revenue for the three months ended 31 December 2011 was approximately RMB 24.7 million, representing an increase of approximately 28.4% as compared to approximately RMB 19.2 million for the three months ended 30 September 2011. The increase was mainly contributed by (i) the continuing contribution 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 31 December 2011 was approximately RMB28.3 million, representing an increase of approximately 57.1% as compared to approximately RMB18.0 million for the three months ended 30 September 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 server leasing costs due to the expansion of mobile Internet business.

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 31 December 2011 and 30 September 2011 were approximately RMB10.1 million and approximately RMB2.9 million, respectively.

Gross profit

Our gross profit for the three months ended 31 December 2011 was approximately RMB188.8 million, representing an increase of approximately 2.2% as compared to approximately RMB184.7 million for the three months ended 30 September 2011.

The gross profit margin for the three months ended 31 December 2011 was approximately 87.0%, which represented a decrease of approximately 4.1% as compared with the three months ended 30 September 2011.

Other income and gains

Other income and gains for the three months ended 31 December 2011 were approximately RMB17.4 million, representing an increase of approximately 227.5% as compared with the three months ended 30 September 2011. The increase in other income and gains was mainly caused by the increase in government grants received by NetDragon (Fujian) and TQ Digital from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳).

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2011 were approximately RMB46.3 million, representing an increase of approximately 34.9% as compared with the three months ended 30 September 2011. The increase in the amount of selling and marketing expenses was mainly due to the increase in advertising and promotion activities for Eudemons Online, Dungeon Keeper™ Online and mobile Internet business.

The Group re-allocated the resources for the development of the mobile Internet business. As at 31 December 2011, the number of operation and marketing staff in the mobile Internet business was 123, which has increased by approximately 61.8%, as compared with the number of staff as at 30 September 2011. The selling and marketing expenses of mobile Internet business for the three months ended 31 December 2011 and 30 September 2011 were approximately RMB8.5 million and approximately RMB5.5 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 6.4% to approximately RMB59.5 million for the three months ended 31 December 2011 as compared with the three months ended 30 September 2011, which was mainly due to (i) the rise in exchange loss resulted from appreciation of RMB against USD and HKD; and (ii) the increase of capital expenditure during the second half of 2011 resulted in the increase of depreciation expenses.

Besides that, the Group re-allocated the resources for the mobile Internet business, integrated application development and other new business divisions. As at 31 December 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 42, which was increased by approximately 31.3%, as compared with the number of staff as at 30 September 2011. The total administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 31 December 2011 and 30 September 2011 were approximately RMB11.1 million and approximately RMB4.9 million, respectively.

Development costs

Development costs increased by approximately 30.6% to approximately RMB47.4 million for the three months ended 31 December 2011 as compared with the three months ended 30 September 2011. The increase in the amount of development costs was mainly caused by the performance rewards being given to staff with outstanding performance increased.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 December 2011, the total number of research and development staff in the mobile Internet business and integrated application development was 336, which was increased by approximately 13.5%, as compared with the number of staff as at 30 September 2011. The total development costs of mobile Internet business and integrated application development for the three months ended 31 December 2011 and 30 September 2011 were approximately RMB11.2 million and approximately RMB8.4 million, respectively.

Other expenses

Other expenses for the three months ended 31 December 2011 were approximately RMB5.0 million, which represented an increase of approximately 29.6% as compared with the three months ended 30 September 2011. The increase as compared with the three months ended 30 September 2011 was mainly caused by (i) a donation paid to the Fujian Haixi Youth Business Foundation* (the "Foundation") (福建海西青年創業基金會) to support the youth entrepreneurship contribution; and (ii) business tax of inter-group sales.

* *For identification purpose only*

Loss on changes in fair value of conversion option derivative and finance costs

Loss on changes in fair value of conversion option derivative and finance costs increased by approximately 3,906.1% to approximately RMB21.1 million for the three months ended 31 December 2011 as compared with the three months ended 30 September 2011, which was mainly due to the rise in fair value loss and the rate of return being recognised by the issuance of Series A and Series B Preferred Shares by a subsidiary of the Company.

Share of losses of associates

Share of losses of associates for the three months ended 31 December 2011 was approximately RMB0.4 million, which increased by approximately 575.4% as compared with the three months ended 30 September 2011.

Taxation

Taxation for the three months ended 31 December 2011 was approximately RMB18.7 million, which raised by approximately 105.1% as compared with the three months ended 30 September 2011. The increase as compared with the three months ended 30 September 2011 was the increase in recognition of withholding tax for proposed final dividend declared for the year ended 31 December 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 31 December 2011 was approximately RMB7.9 million, representing a decrease of approximately RMB41.9 million as compared with approximately RMB49.8 million for the three months ended 30 September 2011.

Fourth Quarter of 2011 Compared to Fourth Quarter of 2010

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

	Three months ended	
	31 December 2011	31 December 2010
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**217,176**	143,957
Cost of revenue	**(28,337)**	(14,618)
Gross profit	**188,839**	129,339
Other income and gains	**17,369**	37,353
Selling and marketing expenses	**(46,277)**	(24,280)
Administrative expenses	**(59,529)**	(49,783)
Development costs	**(47,387)**	(49,891)
Other expenses	**(5,047)**	(5,552)
Loss on changes in fair value of conversion option derivative	**(17,582)**	—
Finance costs	**(3,490)**	—
Share of losses of associates	**(439)**	—
Profit before taxation	**26,457**	37,186
Taxation	**(18,710)**	(27,813)
Profit for the period	**7,747**	9,373
Profit for the period attributable to:		
- Owners of the Company	**7,861**	9,292
- Non-controlling interests	**(114)**	81
	7,747	9,373

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 31 December 2011 was approximately RMB217.2 million, representing an increase of approximately 50.9% as compared to approximately RMB144.0 million for the three months ended 31 December 2010.

Online game

Our online game revenue for the three months ended 31 December 2011 was approximately RMB192.5 million, representing an increase of approximately 33.7% as compared to approximately RMB144.0 million for the three months ended 31 December 2010.

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

	Three months ended			
	31 December 2011		31 December 2010	
	RMB'000	***% of online game revenue***	*RMB'000*	*% of online game revenue*
PRC	**164,209**	**85.3**	116,161	80.7
Overseas	**28,304**	**14.7**	27,796	19.3
	192,513	**100.0**	143,957	100.0

The online game revenue derived from the PRC for the three months ended 31 December 2011 was approximately RMB164.2 million, representing an increase of approximately 41.4% as compared to approximately RMB116.2 million for the three months ended 31 December 2010. The increase in online game revenue derived from the PRC was mainly due to the release of new Chinese expansion packs "Edge of Night" and "Trumpet of Legionaire" of Eudemons Online during the year under review.

The online game revenue derived from overseas markets for the three months ended 31 December 2011 amounted to approximately RMB28.3 million, representing an increase of approximately 1.8% as compared with that of approximately RMB27.8 million for the three months ended 31 December 2010.

Mobile Internet business

The mobile Internet business revenue for the three months ended 31 December 2011 was approximately RMB 24.7 million, representing an increase of approximately

489.5% as compared to approximately RMB4.2 million, which was previously classified as "Other income and gains", for the three months ended 31 December 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 31 December 2011 increased by approximately 93.9% to approximately RMB28.3 million as compared with that of approximately RMB14.6 million for the three months ended 31 December 2010. 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 server leasing costs due to the expansion of mobile Internet business.

Gross profit

Our gross profit for the three months ended 31 December 2011 was approximately RMB188.8 million, representing an increase of approximately 46.0% as compared to approximately RMB129.3 million for the three months ended 31 December 2010.

However, the gross profit margin for the three months ended 31 December 2011 was approximately 87.0%, which represented a decrease of approximately 2.8% as compared with the three months ended 31 December 2010.

Other income and gains

Other income and gains for the three months ended 31 December 2011 decreased by approximately 53.5% to approximately RMB17.4 million as compared with the three months ended 31 December 2010. The decrease in other income and gains was mainly caused by (i) the decrease in government grants received by NetDragon (Fujian) and TQ Digital from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳); and (ii) the decrease of investment income received for the three months ended 31 December 2011.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2011 increased by approximately 90.6% to approximately RMB46.3 million as compared with the three months ended 31 December 2010. The increase in selling and marketing expenses was mainly due to (i) increase in advertising and promotion activities for Eudemons Online, Conquer Online, Dungeon Keeper™ and mobile

Internet business; (ii) increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development; and (iii) increase in expenditures of share-based payments for the grant of share options as incentives in order to retain certain eligible participants 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 31 December 2011, the number of operation and marketing staff in the mobile Internet business was 123, which was decreased by approximately 25.9%, as compared with the number of staff as at 31 December 2010. The selling and marketing expenses of mobile Internet business for the three months ended 31 December 2011 and 31 December 2010 were approximately RMB8.5 million and approximately RMB0.3 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 19.6% to approximately RMB59.5 million for the three months ended 31 December 2011 as compared with the three months ended 31 December 2010. The increase in administrative expenses was mainly due to (i) the rise in outsourced repair and maintenance expenses; and (ii) the increase in 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 31 December 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 42, which was decreased by approximately 40.0%, as compared with the number of staff as at 31 December 2010. The administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 31 December 2011 and 31 December 2010 were approximately RMB11.1 million and approximately RMB1.5 million, respectively.

Development costs

Development costs decreased by approximately 5.0% to approximately RMB47.4 million for the three months ended 31 December 2011 as compared with the three months ended 31 December 2010. The number of staff in our development team increased from 1,322 as at 31 December 2010 to 1,493 as at 31 December 2011. The decrease in the amount of development costs was caused by the positive result from continuing actions taken on cost control.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 December 2011, the total number of research and development staff in the mobile Internet business and integrated application development was 336, which was increased by approximately 202.7%, as compared with the number of staff as at 31 December 2010. The total development costs of mobile Internet business and integrated application development for the three months ended 31 December 2011 and 31 December 2010 were approximately RMB11.2 million and approximately RMB6.0 million, respectively.

Other expenses

Other expenses for the three months ended 31 December 2011 were approximately RMB5.0 million, which represented a decrease of approximately 9.1% as compared with the three months ended 31 December 2010. The decrease in the amount of other expenses was mainly caused by the decline in donation to the Fujian Haixi Youth Business Foundation* (福建海西青年創業基金會).

Taxation

Taxation for the three months ended 31 December 2011 dropped by approximately 32.7% as compared with the three months ended 31 December 2010. The decrease as compared with the three months ended 31 December 2010 was the effect of the increase in tax rate in 2010 for technical service income and applied retrospective from 1 January 2008.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 December 2011 was approximately RMB7.9 million, representing a decrease of approximately RMB1.4 million as compared with approximately RMB9.3 million for the three months ended 31 December 2010.

* *For identification purpose only*

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2011, we had bank deposits, bank balances and cash of approximately RMB1,468.9 million as compared with approximately RMB1,218.7 million as at 31 December 2010.

As at 31 December 2011, the Group had net current assets of approximately RMB1,329.7 million as compared with approximately RMB1,178.3 million as at 31 December 2010.

STAFF INFORMATION

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

	At 31 December 2011	At 30 September 2011	At 31 December 2010
Research and development	**1,493**	1,464	1,322
Operation and marketing	**537**	494	534
Accounting, finance and general administration	**379**	349	371
Total	**2,409**	2,307	2,227

As at 31 December 2011, we had a total of 2,409 employees (30 September 2011 and 31 December 2010: 2,307 and 2,227, respectively), 766 of which were online game developers of the research and development department, represented approximately 31.8% 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 31 December 2011	At 30 September 2011	At 31 December 2010
Research and development	**231**	198	166
Operation and marketing	**123**	76	25
Accounting, finance and general administration	**42**	32	—
Total	**396**	306	191

The number of employees of integrated application development and other new business divisions as at 31 December 2011 under research and development was 105 (30 September 2011 and 31 December 2010: 98 and 86, respectively).

After four years' expansion 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 31 December 2011, 30 September 2011 and 31 December 2010.

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

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

Development and licensing of existing games

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

During the year under review, the Group has continued to introduce new expansion packs to enrich its existing games. In 2011, two Chinese version of expansion packs for Eudemons Online, namely "Edge of Night"（吸血聖戰）and "Trumpet of the Legionnaire"（百戰雄獅）were launched in April and October 2011 to enhance the attractiveness of the game to the players. The Chinese version of expansion packs for Conquer Online, namely "Invasion of Pirates"（海盜來襲）was launched in December 2011, while the Turkish version of Conquer Online was also released in June 2011. In December 2011, the Group launched open beta testing for ipad-based

English version of Conquer Online. Meanwhile, the Group also launched an expansion pack "Soul of Steel" (鋼鐵之魂) in the Chinese version for Zero Online in March 2011 and a new expansion pack "Legend of the Oriental" (東方傳奇) for the Chinese version of Heroes of Might and Magic Online in August 2011.

For the expansion of overseas markets, the Group continued to maintain its leading advantages among the PRC's online game operators and launched several game products in various countries and regions with market potential in 2011.

In respect of self-operated games, we have launched the expansion pack "The Returning Light" for Conquer Online in French, Spanish and Arabian in the first quarter of 2011. The Turkish version and Traditional Chinese version of Conquer Online have been launched in the third quarter of 2011, respectively. The Group has also launched different English version expansion packs, 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 in June 2011. 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.

In October 2011, 91kt Player, jointly developed by the Company and Turner Broadcasting System Asia Pacific, Inc., the parent company of Cartoon Network, was formally launched. This product aims to bring Chinese children and adolescents the world's most popular Cartoon Network content, in association with a jointly developed website 91kt.com.

Games in the pipeline

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

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 2012.

* *For identification purpose only*

Mobile Internet Business

During the year under review, the mobile Internet business becomes an important business within the Group, and the proposed segregation 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 various self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. As of December 2011, the total number of users of the 91 Series mobile phone software (including 91 Panda Reader*（"91熊貓看書"）, 91 PC Suite*（"91手機助手"）, etc.) which is one of the advanced mobile phone applications in the PRC, has broken its record. The Company's Android downloading platform, namely HiMarket is integrated with multiple terminals such as the mobile terminal, Web terminal, Wap terminal and PC terminal. Currently, the Company has become one of Mainland's largest distribution channels of Android application, with millions of users and billions of distributions throughout the year. As at December 2011, tens of thousands of software distributions were recorded each day.

The Group's has further introduced the updated versions of self-developed cross-platform mobile games, such as 91 Farm* ("91農場") and 91 Pasture* ("91牧場") as well as Hengha Warring States* ("哼哈三國") and Warring States* ("戰國天下"), These games also provide numerous interactive features for players and their friends, enhancing the loyalty of the game players significantly.

91 Farm* ("91 農場") is the first mobile game to simulate the operation of farmland. The players of 91 Farm*, who are all mobile phone game players, can simulate planting vegetables by installing 91 Farm* on their mobile phones. The game is compatible to various platforms and has become one of the most popular farming simulation games. It was awarded as one of the "Top 10 Chinese Domestic Mobile Games"（「十大最受歡迎民族手機遊戲」） by "China Game Industry Annual Conference 2011"（「2011 年度中國遊戲產業年會」）.

Warring States* ("戰國天下") is based on the history of Chun-qiu and Warring States period. Warring States takes you back to the historical period characterized by power struggles and fierce warfare among warlords. Since the launch of its public trial

* *For identification purpose only*

version in December 2011, the mobile game has been well received and supported by players for its outstanding gaming graphics, creative playing methods and various special features. Our outstanding reputation and game design have attracted lots of supporters. We outperformed our peers as we opened our third servers within one month. On the day of commencement of the new servers, significant increase in the number of active users was recorded.

Hengha Warring States* ("哼哈三國"), an interactive mode including features forums, access to friends' treasure boxes and competitions, was introduced to the game. As such, a social network among different players through this mobile game was established. In December 2011, the internal trial of Hengha Warring States was finished for further trial by all the staff.

In line with the development of business model in the mobile Internet application industry, the Group has strived for establishing a platform based operation model by integrating its research and development, operations and payment channels. The Group will focus on the rapidly-developing mobile Internet market in the PRC by providing full support to the development and innovation of Internet applications, contents and services of domestic and overseas 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 and markets abroad.

As of 31 December 2011, the mobile Internet business of the Group has 396 employees, representing approximately 16.4% of the overall staff headcount, which secured the leading position of the Group's mobile Internet business in the future.

* *For identification purpose only*

During the year under review, 91 Limited issued the redeemable convertible preferred shares and the convertible promissory notes to certain investors. Details are as follows:

Name of other entities of the group or counterparties	Nature and consideration of the transaction	Conversion rights	Redemption rights	Completion date of the transaction	Dates of announcement of the transaction
(i) IDG-Accel China Growth Fund L.P.; (ii) IDG-Accel China Growth Fund-A L.P.; and (iii) IDG-Accel China Investors L.P. (collectively, "IDG Investors")	91 Limited issued and sold to IDG Investors 15,384,000 Series A Preferred Shares of 91 Limited at a consideration of USD3,999,840 pursuant to a share purchase agreement dated 30 May 2011	The holders of the Series A Preferred Shares have the right to convert the Series A 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 Series A Preferred Shares at the redemption price of USD0.26 per Series A Preferred Share plus cumulative rate of return of 5% per annum and any declared but unpaid dividends on the Series A Preferred Shares after receipt of written request signed by the holders of at least two-thirds of the Series A Preferred Shares at any time after the fifth but not later than the tenth anniversary of the issuance date of Series A Preferred Shares.	13 August 2011	30 May 2011 and 15 August 2011
IDG Investors	91 Limited issued to IDG Investors the convertible promissory notes in an aggregate principal amount of USD5,000,000 ("Notes") pursuant to a note purchase agreement dated 14 September 2011			21 September 2011	14 and 21 September 2011

Name of other entities of the group or counterparties	Nature and consideration of the transaction	Conversion rights	Redemption rights	Completion date of the transaction	Dates of announcement of the transaction
IDG Investors	Pursuant to the terms and conditions of the Notes, 91 Limited issued 4,006,250 Series B Preferred Shares of 91 Limited at a conversion price of USD1.2480499 to IDG Investors on 10 February 2012. The aggregate principal amount owed by 91 Limited to the IDG Investors had been settled and the Notes thereafter be cancelled and ceased to have any effect whatsoever.	The holders of the Series B Preferred Shares have the right to convert the Series B Preferred Shares to ordinary shares at the conversion price of USD1.2480499 upon (i) a qualified initial public offering; or (ii) the receipt by 91 Limited of conversion note for the holders of a majority of Series A Preferred Shares; or (iii) the receipt by 91 Limited of conversion note from the holders of more than two-thirds of the Series B Preferred Shares ("Series B Conversion Rights")	91 Limited has the right to redeem all Series B Preferred Shares at the redemption price of USD1.2480499 per Series B Preferred Share plus cumulative rate of return of 12% per annum and any declared but unpaid dividends on the Series B Preferred Shares after receipt of written request signed by the holders of more than two-thirds of the Series B Preferred Shares at any time after fourth anniversary of the issuance date of Series B Preferred Shares ("Series B Redemption Rights")	17 February 2012	10 and 20 February 2012
(i) Vertex Asia Growth Ltd; (ii) IP Cathay II, L.P.; and (iii) DT Capital China Growth Fund, L.P. (collectively, "Series B Investors")	91 Limited issued and sold to Series B Investors an aggregate of 16,025,000 Series B Preferred Shares for a total consideration of USD20,000,000 pursuant to the series B preferred share agreement dated 9 December 2011	Series B Conversion Rights	Series B Redemption Rights	30 December 2011	9, 15 and 30 December 2011

Enhancement of R&D capabilities

The intense competition in the online game and mobile Internet application industries has driven the Group to focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 31 December 2011, the Group's overall staff headcount was 2,409, of which 1,493 were members of the development team. After more than a decade of talent cultivation, the development team of the Group has gathered expertise in programming, design and graphics, which will support its frequent R&D, game upgrades and software upgrades to accommodate the latest player preferences and satisfy emerging market trends.

PROSPECTS AND OUTLOOK

Looking forward to 2012, the Group plans to further enhance its game development capabilities and to train talented R&D personnel. Aside from developing new games to expand its product lines, the Group will continue to update the content for its games and provide diversified game versions for extending the life span of its products. As such, the Group's revenue base can be maximised.

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

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

Online Games

MMORPGs

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

TRANSFORMERS Online

In May 2010, the Group entered a brand licensing agreement with Hasbro, a worldwide leader in children's and family leisure time products and services, for the exclusive rights to develop and publish in the PRC an MMORPG based on Hasbro's iconic TRANSFORMERS brand. The action-oriented PC online game "TRANSFORMERS Online" is expected to 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 (previously named as World of Dungeon Keeper™). Open beta testing is expected in 2012.

Besides developing more games, the Group will continue to put emphasis on the update of existing game contents in order to ensure that they remain appealing. The Group has launched the expansion pack "Invasion of Pirates" for Conquer Online in English, Spanish, French and Arabian in January 2012. It is estimated that new expansion packs of the major products of the Group, including Eudemons Online, Conquer Online, Zero Online and Way of the Five, will be released in 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 (previous named as Cross Gate* (時空之門)) was the first 2D horizontal edition combat online game of the Group. Two closed beta testings of icombo were completed in 2010 and an open beta testing will be carried out in end of 2012.

Absolute Force (絕對火力)*

A 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. In December 2011, we carried out the open beta testing and expect to have the official launch in 2012.

Age of Magic (魔法 VS 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 March 2012 and open beta testing in August 2012.

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

* *For identification purpose only*

user-friendly product experience and cater for 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.

Issuance of Series B Preferred Shares by 91 Limited to NetDragon Websoft Inc.

On 10 February 2012, a subscription agreement (the "Subscription Agreement") was entered into between NetDragon Websoft Inc. ("NetDragon (BVI)"), a subsidiary of the Company and 91 Limited, an indirect subsidiary and a connected person of the Company under the Listing Rules. Pursuant to the Subscription Agreement, NetDragon (BVI) subscribed for, and 91 Limited issued and alloted, 2,403,750 Series B Preferred Shares for a total consideration of USD3,000,000. The preferred shares account for approximately 2.03% of the share capital of 91 Limited upon the full conversion of the preferred shares. The holders of the Series B Preferred Shares have the right to convert the Series B Preferred Shares to ordinary shares at the conversion price of USD1.2480499 upon (i) a qualified initial public offering; or (ii) the receipt by 91 Limited of conversion note for the holders of a majority of Series A Preferred Shares; or (iii) the receipt by 91 Limited of conversion note from the holders of more than two-thirds of the Series B Preferred Shares. 91 Limited has the right to redeem all Series B Preferred Shares at the redemption price of USD1.2480499 per Series B Preferred Share plus cumulative rate of return of 12% per annum and any declared but unpaid dividends on the Series B Preferred Shares after receipt of written request signed by the holders of more than two-thirds of the Series B Preferred Shares at any time after fourth anniversary of the issuance date of Series B Preferred Shares.

On 17 February 2012, all conditions precedent under the Subscription Agreement had been fulfilled or waived and the closing of the Subscription Agreement (the "Subscription Closing") took place. 91 Limited issued and sold to NetDragon (BVI) a total of 2,403,750 Series B Preferred Shares and the total consideration of the Subscription Agreement had been received by 91 Limited.

Further details of the Subscription Agreement and the Subscription Closing are set out in the announcements of the Company dated 10 and 20 February 2012, 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. To this end, the Group will further invest in and strengthen game development and operation by launching internal training programs and employing experienced elite games 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 games. In view of this, the Group intends to cater for the demands of players on storyline setting, graphic style and playing methods of the new games by regulating the development process of various game projects in 2012. It will also carry out initiatives to optimise the perspectives and planning of market forecast at the early development stage, identify development targets for each version of game projects and improve operating standards for projects which are subject to regular auditing. The above measures will also help to optimize the cost structure of the Group and generate more profits from the future revenue growth.

The Group's lay-out for its mobile Internet business is expected to boost its rapid growth in 2012. With the favourable mobile Internet development in the PRC as well as the endeavours of the Group, its mobile Internet business will become another major source of growth apart from its online games.

PROJECT IN THE HAIXI ANIMATION CREATIVITY CITY (THE "PROJECT")

During the year under review, the Group has actively participated in the Project, a major development project for the construction of Haixi district implemented by the PRC government and arranged by the government of the Changle City of Fuzhou in Fujian Province. In 2011, the PRC government increased its support on the cultural and creative industry. As a major provincial project, the Project in the Haixi Animation Creativity City has gained significant support and attention of the provincial and municipal governments. The area was also considered as the major animation industrial park of 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 the first phase of the Project including five major buildings such as the Pentagonal Building* (五角大樓) and the Heavenly Building* (天禧樓), has been completed and in use at present. The area has been designated as the research and development and quality development zone of the Group. The Group is currently establishing other infrastructure of the second phase of the Project in order.

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 its main building completed its construction in August 2011. The Group held a capping ceremony in August 2011 to celebrate this significant milestone for the Project. Currently, the installation of glass curtain walls and interior furnishing are in progress. It is expected that the TQ Building will be ready for use in the fourth quarter of 2012. The annexing building has been completed and its interior design and renovation are in progress. 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.

As at 31 December 2011, the Group had capital commitments in relation to the development of the Project of approximately RMB246.6 million, in which the Group had settled approximately RMB112.3 million.

On 17 February 2012, the Group entered into an agreement for the acquisition of two parcels of land adjacent of the Property and the Owned Land at an aggregate consideration of approximately RMB55.9 million. The completion of the acquisition shall take place on or before 17 August 2012.

Save as disclosed above, we may 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 for the acquisitions of the Property and the Owned Land are set out in the circular of the Company dated 19 May 2010 and the announcement of the Company dated 25 October 2010.

* *For identification purpose only*

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 full year result and further stimulated staff spirit and sense of responsibility.

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

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

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
Liu Dejian *(Note 2)*	The Company	Beneficial owner and through controlled corporations	268,492,520 (L)	52.18%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%

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 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	268,292,520 (L)	52.14%
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	Benificial owner and through controlled corporations	266,892,520 (L)	51.86%
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)	2.87%
Chao Guowei, Charles *(Note 5)*	The Company	Beneficial owner	597,019(L)	0.12%
Lee Kwan Hung *(Note 5)*	The Company	Beneficial owner	597,019(L)	0.12%
Liu Sai Keung, Thomas *(Note 5)*	The Company	Beneficial owner	597,019(L)	0.12%

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 36.16% 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 5.12% 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 36.16% and 4.13%, 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 6.40% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.81% 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 2.51% of the issued share capital of the Company. Chen Hongzhan 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 2.87% 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 Sui Keung, Thomas.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2011, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 31 December 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)	36.16%
Eagle World International Inc. *(Note 2)*	The Company	Beneficial owner	32,952,920(L)	6.40%
Flowson Company Limited *(Note 2)*	The Company	Through a controlled corporation	32,952,920(L)	6.40%
IDG Group *(Note 3)*	The Company	Beneficial owner	78,333,320(L)	15.22%
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	30,888,000	6.00%
Edmond de Rothschild Asset Management *(Note 4)*	The Company	Through a controlled corporation	30,888,000	6.00%

Notes:

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

2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the British Virgin Islands with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.40% 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 2.11%, 10.11%, 2.06% and 0.94%，respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships are as follows:

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

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

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

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 6.00% 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 31 December 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 year ended 31 December 2011 are as follows:

			Number of share options				
Grantee	**Date of grant**	**Exercise Price** *HKD*	**As at 1 January 2011**	**Granted**	**Exercised**	**Lapsed**	**As at 31 December 2011**
Executive Directors							
Liu Dejian	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	28.04.2011	4.80	—	284,000	—	284,000	—
	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

Grantee	Date of grant	Exercise Price *HKD*	Number of share options: As at 1 January 2011	Granted	Exercised	Lapsed	As at 31 December 2011
Others							
Employees	07.12.2009	4.33	2,200,000	—	—	—	2,200,000
	28.04.2011	4.80	—	13,754,900	—	553,500	13,201,400
	22.07.2011	4.60	—	1,345,500	—	31,000	1,314,500
Total			6,800,000	19,772,400	—	2,920,500	23,651,900

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 HKD4.80.

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 HKD4.60.

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 31 December 2008, the Board awarded an aggregate amount of approximately HKD16,094,000 (equivalent to approximately RMB14,120,000) for the purchase of shares to a number of Selected Employees. For the year ended 31 December 2011, the Trustee purchased 3,174,000 shares and the total payout, including the related transaction costs, amounted to approximately HKD16,100,000 (equivalent to approximately RMB14,200,000). Subject to the receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the Selected Employees within the period stipulated in the vesting notice issued by the Trustee to the Selected Employees; and (ii) a confirmation from the Company that all vesting conditions having been fulfilled, the awarded shares will be transferred to the Selected Employees at nil consideration upon vesting.

FINAL DIVIDEND

At the Board meeting held on Monday, 26 March 2012, it was proposed that a final dividend of HKD0.12 per share for the year ended 31 December 2011, amounting to approximately HKD61,752,000 be paid on or before Thursday, 7 June 2012 to the shareholders of the Company whose names appear on the Company's register of members at the close of business on Thursday, 31 May 2012. The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming AGM to be held on Friday, 18 May 2012.

CLOSURE OF REGISTER OF MEMBERS

(a) **For determining the entitlement to attend and vote at the 2012 AGM**

The Company's register of members will be closed from Tuesday, 15 May 2012 to Friday, 18 May 2012, both days inclusive, during which time no transfer of shares will be registered. In order to ensure that the shareholders are entitled to attend and vote at the AGM, the shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Monday, 14 May 2012 for registration of the relevant transfer.

(b) **For determining the entitlement to the proposed final dividend**

The Board has recommended the payment of a final dividend of HKD0.12 per share for the year ended 31 December 2011 to shareholders whose names appear on the register of members of the Company on Thursday, 31 May 2012 subject to the approval of the shareholders of the Company at the AGM. For determining the entitlement to the proposed final dividend, the register of members of the

Company will be closed from Tuesday, 29 May 2012 to Thursday, 31 May 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 28 May 2012.

PUBLICATION OF FINAL RESULTS AND 2011 ANNUAL REPORT

The final results announcement of the Company is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.nd.com.cn). The annual report will be dispatched to the shareholders of the Company and will be available on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.nd.com.cn) in due course.

ANNUAL GENERAL MEETING

The 2012 AGM will be held on Friday, 18 May 2012. A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

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 THE CG CODE PROVISIONS

Throughout the year under review, the Company has complied with the principles set out in the Code of Corporate Governance Practice (the "CG Code Provisions") in Appendix 14 to the Listing Rules.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2011 as set out in the results announcement have been agreed by the Group's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the results announcement.

AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision and has held four meetings during 2011. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

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

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2011 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2011, the Company repurchased a total of 13,971,000 shares on the Stock Exchange at an aggregate consideration of HKD55,401,035.00 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
October 2011	10,353,000	4.00	3.66	40,420,035.00

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

Hong Kong, 26 March 2012

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.