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NetDragon Websoft Inc.

網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2012**

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2012. The first quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the “Auditor”) of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2012 together with the comparative figures in 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2012

		Three months ended 31 March	
		2012	2011
		(Unaudited)	(Unaudited)/ (Restated)
	NOTES	RMB'000	RMB'000
Revenue	4	236,975	156,755
Cost of revenue		<u>(28,275)</u>	<u>(14,543)</u>
Gross profit		208,700	142,212
Other income and gains	4	3,989	9,912
Selling and marketing expenses		(33,487)	(25,318)
Administrative expenses		(58,911)	(46,591)
Development costs		(45,786)	(40,577)
Other expenses		(1,721)	(1,885)
Net loss on derivative financial instruments		(3,961)	—
Finance costs		(4,729)	—
Share of losses of associates		<u>(373)</u>	<u>—</u>
Profit before taxation		63,721	37,753
Taxation	6	<u>(7,848)</u>	<u>(3,081)</u>
Profit for the period	7	55,873	34,672
Other comprehensive expense:			
Exchange differences arising on translation of foreign operations		<u>(17)</u>	<u>(172)</u>
Total comprehensive income for the period		<u>55,856</u>	<u>34,500</u>

		Three months ended	
		31 March	
		2012	2011
		<i>(Unaudited)</i>	<i>(Unaudited)/</i>
		<i>(Unaudited)</i>	<i>(Restated)</i>
<i>NOTES</i>		<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period attributable to:			
	- Owners of the Company	55,771	34,612
	- Non-controlling interests	<u>102</u>	<u>60</u>
		<u>55,873</u>	<u>34,672</u>
Total comprehensive income attributable to:			
	- Owners of the Company	55,754	34,440
	- Non-controlling interests	<u>102</u>	<u>60</u>
		<u>55,856</u>	<u>34,500</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share			
	- Basic	10.88	6.57
	- Diluted	<u>10.87</u>	<u>6.57</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2012**

		31 March 2012	31 December 2011
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		195,851	192,119
Prepaid lease payments	10	140,682	86,298
Investment property	10	15,807	15,809
Deposit paid for acquisition of property, plant and equipment		36	19,050
Intangible assets		6,398	4,520
Interests in associates	11	12,296	12,669
Available-for-sale investments		4,000	4,000
Loan receivables		6,125	6,314
Deferred tax assets		54	54
		<u>381,249</u>	<u>340,833</u>
Current assets			
Prepaid lease payments		2,902	1,784
Loan receivables		966	1,091
Trade receivables	12	33,259	41,555
Other receivables, prepayments and deposits		49,064	41,429
Amounts due from related companies	13	1,598	1,200
Bank deposits		110,000	40,000
Bank balances and cash		1,387,418	1,428,928
		<u>1,585,207</u>	<u>1,555,987</u>

		31 March 2012	31 December 2011
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade payables	14	7,040	5,001
Other payables and accruals		122,025	121,353
Deferred income		27,286	25,528
Amounts due to related companies	15	243	965
Promissory notes	16	—	30,623
Income tax payable		<u>38,521</u>	<u>42,849</u>
		<u>195,115</u>	<u>226,319</u>
Net current assets		<u>1,390,092</u>	<u>1,329,668</u>
Total assets less current liabilities		<u>1,771,341</u>	<u>1,670,501</u>
Non-current liabilities			
Redeemable convertible preferred shares	17	164,916	131,675
Conversion option derivative liability	17	<u>46,080</u>	<u>39,932</u>
		<u>210,996</u>	<u>171,607</u>
Net assets		<u>1,560,345</u>	<u>1,498,894</u>
Capital and reserves			
Share capital		38,226	38,226
Share premium and reserves		<u>1,522,474</u>	<u>1,461,126</u>
Equity attributable to owners of the Company		1,560,700	1,499,352
Non-controlling interests		<u>(355)</u>	<u>(458)</u>
		<u>1,560,345</u>	<u>1,498,894</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2012

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 2011	39,264	1,157,364	1,963	—	9,946	121,339	8,994	673	(8,494)	9,539	(56,663)	167,772	1,451,697	(540)	1,451,157
Profit for the period	—	—	—	—	—	—	—	—	—	—	—	34,612	34,612	60	34,672
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(172)	—	(172)	—	(172)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	—	(172)	34,612	34,440	60	34,500
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	785	—	—	785	—	785
At 31 March 2011 (unaudited)	<u>39,264</u>	<u>1,157,364</u>	<u>1,963</u>	<u>—</u>	<u>9,946</u>	<u>121,339</u>	<u>8,994</u>	<u>673</u>	<u>(8,494)</u>	<u>10,324</u>	<u>(56,835)</u>	<u>202,384</u>	<u>1,486,922</u>	<u>(480)</u>	<u>1,486,442</u>
At 1 January 2012	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
Profit for the period	—	—	—	—	—	—	—	—	—	—	—	55,771	55,771	102	55,873
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(17)	—	(17)	—	(17)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	—	(17)	55,771	55,754	102	55,856
Contribution by shareholders	—	—	—	—	99	—	—	—	—	—	—	—	99	1	100
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	5,495	—	—	5,495	—	5,495
At 31 March 2012 (unaudited)	<u>38,226</u>	<u>1,113,005</u>	<u>3,001</u>	<u>2,209</u>	<u>10,045</u>	<u>140,883</u>	<u>50,062</u>	<u>673</u>	<u>(7,552)</u>	<u>24,549</u>	<u>(58,132)</u>	<u>243,731</u>	<u>1,560,700</u>	<u>(355)</u>	<u>1,560,345</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2012**

	Three months ended	
	31 March	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH FROM OPERATING ACTIVITIES	<u>50,076</u>	<u>20,586</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(10,965)	(16,597)
Purchase of prepaid lease payments	(9,472)	—
Placement of bank deposits	(70,000)	—
Other investing cash flows	<u>(926)</u>	<u>2,054</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(91,363)</u>	<u>(14,543)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(41,287)	6,043
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,428,928	877,823
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(223)</u>	<u>1,309</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>1,387,418</u>	<u>885,175</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION
FOR THE THREE MONTHS ENDED 31 MARCH 2012**

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 Controlling 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 Company and its subsidiaries (collectively referred to as the “Group”) are engaged in online game development, including game design, programming and graphics and online game operation as well as mobile Internet business.

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

2. BASIS OF PREPARATION

The amounts included in the condensed consolidated financial information has been computed in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) applicable to interim periods. However, it does not contain sufficient information to constitute an interim financial report defined in Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011, except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments issued by the HKICPA:

- HKAS 12 (Amendments) Deferred Tax: Recovery of Underlying Assets
- HKFRS 7 (Amendments) Disclosures - Transfers of Financial Assets

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

3. PRINCIPAL ACCOUNTING POLICIES - continued

The Group has not early applied new and revised standards, amendments and interpretations that have been issued but are not yet effective. The potential impacts of the new and revised standards that have been issued but not yet effective are disclosed in the annual consolidated financial statements for the year ended 31 December 2011.

4. REVENUE, OTHER INCOME AND GAINS

	Three months ended	
	31 March	
	2012	2011
	(Unaudited)	(Unaudited)/
	RMB'000	(Restated)
		RMB'000
Revenue		
Online game revenue	191,581	150,656
Mobile Internet business revenue (<i>Note a</i>)	<u>45,394</u>	<u>6,099</u>
	<u>236,975</u>	<u>156,755</u>
Other income and gains		
Exchange gain	175	—
Gain on fair value changes of investment property	—	507
Government grants (<i>Note b</i>)	300	4,371
Interest income	2,409	3,620
Net gain on held for trading investments	—	225
Rental income, net of negligible outgoing expenses	101	77
Others	<u>1,004</u>	<u>1,112</u>
	<u>3,989</u>	<u>9,912</u>

Notes:

- a. The mobile Internet business income was recorded as other income and gains during the period ended 31 March 2011. As set out in the Company's consolidated financial statements 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. Therefore, the comparatives in the condensed consolidated statement of comprehensive income have been restated to present mobile Internet business income for the period ended 31 March 2011 as revenue.
- b. Government grants were received from the government of the People's Republic of China (the "PRC") for subsidising the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to software or technology development. There are no unfulfilled conditions or contingencies relating to the grants.

5. SEGMENT INFORMATION

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

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

Three months ended 31 March 2012

	<u>Online game</u>	<u>Mobile Internet business</u>	<u>Total</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Segment revenue	<u>191,581</u>	<u>45,394</u>	<u>236,975</u>
Segment profit (loss)	<u>89,864</u>	<u>(9,235)</u>	<u>80,629</u>
Unallocated income and gains			<u>3,989</u>
Unallocated expenses			<u>(20,524)</u>
Share of losses of associates			<u>(373)</u>
Profit before taxation			<u><u>63,721</u></u>

Three months ended 31 March 2011 (Restated)

	<u>Online game</u>	<u>Mobile Internet business</u>	<u>Total</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Segment revenue	<u>150,656</u>	<u>6,099</u>	<u>156,755</u>
Segment profit	<u>47,619</u>	<u>1,659</u>	49,278
Unallocated income and gains			3,846
Unallocated expenses			<u>(15,371)</u>
Profit before taxation			<u><u>37,753</u></u>

5. SEGMENT INFORMATION - continued

The accounting policies of the operating segment are the same as the Group's accounting policies. 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). 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 segment:

	31 March	31 December
	2012	2011
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Online game	1,624,924	1,513,587
Mobile Internet business	<u>239,440</u>	<u>216,745</u>
Total segment assets	1,864,364	1,730,332
Unallocated	<u>102,092</u>	<u>166,488</u>
	<u><u>1,966,456</u></u>	<u><u>1,896,820</u></u>

6. TAXATION

	Three months ended	
	31 March	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
The charge comprises:		
Hong Kong Profits Tax	924	1,867
The PRC Enterprise Income Tax ("EIT")	6,879	1,167
Taxation in other jurisdictions	<u>45</u>	<u>47</u>
	<u><u>7,848</u></u>	<u><u>3,081</u></u>

6. TAXATION - continued

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months ended 31 March 2012 and 2011.

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

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

7. PROFIT FOR THE PERIOD

	Three months ended	
	31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	1,267	1,480
Other staff costs		
Salaries and other benefits	65,553	58,417
Contributions to retirement benefits schemes	5,163	4,703
Share-based payments expense	<u>4,887</u>	<u>282</u>
	<u>76,870</u>	<u>64,882</u>
Amortisation of intangible assets (included in cost of revenue)	765	1,839
Amortisation of intangible assets (included in other expenses)	817	590
Release of prepaid lease payments (included in administrative expenses)	364	348
Depreciation of property, plant and equipment	7,231	10,305
Operating lease rentals in respect of:		
- rented premises	3,618	4,259
- computer equipment	13,909	7,153
Net foreign exchange (gain) loss	(175)	3,596
Gain on disposal of property, plant and equipment	<u>—</u>	<u>(39)</u>

8. DIVIDENDS

The Directors of the Company do not recommend the payment of an interim dividend during the three months ended 31 March 2012 (three months ended 31 March 2011: Nil).

10. PREPAID LEASE PAYMENTS/INVESTMENT PROPERTY

During the three-month period ended 31 March 2012, the Group spent approximately RMB55,865,000 (three-month period ended 31 March 2011: Nil) for the acquisition of prepaid lease payment to expand its office buildings located in Fuzhou. Among RMB55,865,000, RMB19,014,000 was paid in 2011 and recorded as deposit paid for acquisition of property, plant and equipment as at 31 December 2011, RMB9,472,000 was paid during the period ended 31 March 2012 and RMB27,379,000 was included in other payables and accruals as at 31 March 2012. The Group is in the process of obtaining the land use right certificate.

The Group's investment property as at 31 March 2012 were fair valued by Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions. No significant changes in fair value between 31 March 2012 and 31 December 2011.

11. INTERESTS IN ASSOCIATES

	31 March 2012	31 December 2011
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments outside Hong Kong:		
Cost of investments	13,250	13,250
Share of post-acquisition losses	<u>(954)</u>	<u>(581)</u>
	<u>12,296</u>	<u>12,669</u>
Share of net assets - unlisted	<u>8,537</u>	<u>8,910</u>

12. TRADE RECEIVABLES

The Group allows a credit period of ranging from 30 to 90 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.

	31 March 2012 <i>(Unaudited)</i> RMB'000	31 December 2011 <i>(Audited)</i> RMB'000
0 - 30 days	16,452	22,261
31 - 60 days	5,158	5,364
61 - 90 days	2,197	6,737
Over 90 days	<u>9,452</u>	<u>7,193</u>
Total	<u>33,259</u>	<u>41,555</u>

13. AMOUNTS DUE FROM RELATED COMPANIES

The amounts are unsecured, non-interest bearing and are repayable on demand.

14. TRADE PAYABLES

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

	31 March 2012 <i>(Unaudited)</i> RMB'000	31 December 2011 <i>(Audited)</i> RMB'000
0 - 90 days	6,632	4,641
91 - 180 days	68	323
181 - 365 days	303	26
Over 365 days	<u>37</u>	<u>11</u>
Total	<u>7,040</u>	<u>5,001</u>

15. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, non-interest bearing and are repayable on demand.

16. PROMISSORY NOTES

On 21 September 2011, 91 Limited, a subsidiary of the Company issued promissory notes with a total principal amount of USD5,000,000 (equivalent to approximately RMB31,774,000) to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P. and IDG-Accel China Growth Fund L.P. (collectively referred to as “IDG Companies”), group entities of a substantial shareholder of the Company, 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.

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 upon mutually agreed by the subsidiary of the Company and note holders.

On 17 February 2012, all the promissory notes were converted into 4,006,250 shares of series B redeemable convertible preferred shares at a conversion price of approximately USD1.248 per share.

17. REDEEMABLE CONVERTIBLE PREFERRED SHARES

91 Limited, a subsidiary of the Company issued 15,384,000 series A redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD3,999,840 to IDG Companies on 13 August 2011. The subsidiary also issued 16,025,000 series B redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD20,000,000 (equivalent to approximately RMB126,018,000) to Vertex Asia Growth Ltd., IP Cathay II, L.P. and DT Capital China Growth Fund, L.P. on 15 December 2011 and 30 December 2011. During the period ended 31 March 2012, the promissory notes issued by the subsidiary of the Company have been converted into 4,006,250 series B redeemable convertible preferred shares. Both series A and series B redeemable convertible preferred shares are denominated in United States dollars.

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 issued in 2011 is 16.834% per annum and the effective interest rate of the liability component of the series B redeemable convertible preferred shares issued on 17 February 2012 is 14.23% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

17. REDEEMABLE CONVERTIBLE PREFERRED SHARES - continued

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 period are set out as below:

	Liability component RMB'000	Conversion option and other derivative RMB'000
At 31 December 2011 and 1 January 2012	131,675	39,932
Exchange realignment	(127)	(47)
Converted from promissory notes	29,262	2,234
Interest charge	4,106	—
Loss arising on changes of fair value	<u>—</u>	<u>3,961</u>
31 March 2012	<u>164,916</u>	<u>46,080</u>

The fair value of each underlying share of 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 (“WACC”) of 17.62%, 17.78% and 18.45% were used as at 31 March 2012, 17 February 2012 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 31 March 2012, 17 February 2012 and 31 December 2011 were as follows:

Series A redeemable convertible preferred shares

	31 March 2012	31 December 2011
Risk-free interest rate (i)	0.90%	0.81%
Expected volatility (ii)	69.11%	71.83%

Series B redeemable convertible preferred shares

	31 March 2012	17 February 2012	31 December 2011
Risk-free interest rate (i)	0.71%	0.62%	0.62%
Expected volatility (ii)	<u>69.11%</u>	<u>63.85%</u>	<u>72.17%</u>

17. REDEEMABLE CONVERTIBLE PREFERRED SHARES - continued

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 Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group.

18. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

No options were granted nor exercised during the period. The number of share options outstanding at 31 March 2012 was 23,449,500.

The Group recognised the total expenses of approximately RMB2,653,000 for the three months ended 31 March 2012 (three month ended 31 March 2011: RMB743,000) in relation to share options granted by the Company.

(ii) Share award scheme

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

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB10,000 for the three months ended 31 March 2012 (three months ended 31 March 2011: RMB42,000) in relation to share award.

No share awards were vested and released during the period. The number of share awards outstanding at 31 March 2012 was 79,677.

19. RELATED PARTY TRANSACTIONS

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

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

Name of/and relationship with related parties

Name of related parties	Relationship
Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. (“Fuzhou 851”)	DJM Holding Ltd., the immediate holding company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, together have 86.16% equity interest in this entity.
福州天亮網絡技術有限公司 (“Fuzhou Tianliang”)	Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, acting under the instruction of controlling shareholders of the Company.

31 March	
2012	2011
(Unaudited)	(Unaudited)
RMB'000	RMB'000

Nature of transactions

Rental charges by Fuzhou 851	1,451	636
Service fee at recreation centre paid to Fuzhou 851	1,427	1,500
After-sales service fee paid to Fuzhou Tianliang	4,299	2,808
Technical service fee paid to Fuzhou Tianliang	630	605
Interest received on loan advanced to Mr. Wu Jialiang, a key management	<u>9</u>	<u>9</u>

In 2011, a subsidiary of the Company had issued USD5,000,000 promissory notes (equivalent to approximately RMB31,774,000) and USD3,999,840 (equivalent to approximately RMB25,839,000) redeemable convertible preferred shares to IDG Companies. During the period ended 31 March 2012, the promissory notes issued to IDG Companies were converted into 4,006,250 shares of series B redeemable convertible preferred shares at conversion price of approximately USD1.248 per share.

19. RELATED PARTY TRANSACTIONS - continued

In addition, included in loan receivables at 31 March 2012 were loans advanced to Mr. Wu Jialiang, a key management, of approximately RMB1,700,000 (31 December 2011: RMB1,700,000). The loans carry fixed interest at 4.896% per annum of which RMB700,000 is repayable in 2013 and RMB1,000,000 is repayable in 2014.

Compensation of key management personnel

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

	Three months ended	
	31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	1,878	1,409
Contributions to retirement benefits schemes	23	18
Share-based payments expense	788	785
	<u>2,689</u>	<u>2,212</u>

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

20. CAPITAL COMMITMENTS

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

	31 March	31 December
	2012	2011
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial information	<u>117,642</u>	<u>134,289</u>

21. EVENTS AFTER THE REPORTING PERIOD

Issue of share options

On 23 April 2012, the Company granted a total of 3,234,000 share options to subscribe for up to 3,234,000 ordinary shares of USD0.01 each in the capital of the Company at an exercise price of HKD5.74 under the Scheme to certain Eligible Participants. The closing price of the Company's share on grant date was HKD5.61.

Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Number of share options granted
23 April 2012	23 April 2012 - 22 April 2013	23 April 2013 - 22 April 2022	503,400
23 April 2012	23 April 2012 - 22 April 2014	23 April 2014 - 22 April 2022	605,100
23 April 2012	23 April 2012 - 22 April 2015	23 April 2015 - 22 April 2022	1,006,800
23 April 2012	23 April 2012 - 22 April 2016	23 April 2016 - 22 April 2022	508,500
23 April 2012	23 April 2012 - 22 April 2017	23 April 2017 - 22 April 2022	610,200
			<u>3,234,000</u>

The Directors of the Company are still assessing the financial impact of this transaction. Further details of the grant of share options are set out in the announcement of the Company dated 23 April 2012.

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 March 2012	31 December 2011	30 September 2011	30 June 2011	31 March 2011
PCU	600,000	612,000	569,000	643,000	546,000
ACU	297,000	310,000	300,000	311,000	246,000

Note: As at 31 March 2012, 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 600,000 for the three months ended 31 March 2012 representing a decrease of approximately 2.0% from the three months ended 31 December 2011 and representing an increase of approximately 9.9% from the three months ended 31 March 2011.

We also recorded the ACU for online games of approximately 297,000 for the three months ended 31 March 2012, which represented a decrease of approximately 4.2% from the three months ended 31 December 2011 and represented an increase of approximately 20.7% from the three months ended 31 March 2011.

FINANCIAL PERFORMANCE HIGHLIGHTS
THREE MONTHS ENDED 31 MARCH 2011

The following table sets forth the comparative figures for the three months ended 31 March 2012 and 2011:

	Three months ended	
	31 March	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)/</i>
	<i>RMB'000</i>	<i>(Restated)</i>
		<i>RMB'000</i>
Revenue	236,975	156,755
Cost of revenue	<u>(28,275)</u>	<u>(14,543)</u>
Gross profit	208,700	142,212
Other income and gains	3,989	9,912
Selling and marketing expenses	(33,487)	(25,318)
Administrative expenses	(58,911)	(46,591)
Development costs	(45,786)	(40,577)
Other expenses	(1,721)	(1,885)
Net loss on derivative financial instruments	(3,961)	—
Finance costs	(4,729)	—
Share of losses of associates	<u>(373)</u>	<u>—</u>
Profit before taxation	63,721	37,753
Taxation	<u>(7,848)</u>	<u>(3,081)</u>
Profit for the period	<u>55,873</u>	<u>34,672</u>
Profit for the period attributable to:		
- Owners of the Company	55,771	34,612
- Non-controlling interests	<u>102</u>	<u>60</u>
	<u>55,873</u>	<u>34,672</u>

First Quarter of 2012

Revenue

Revenue for the first quarter of 2012 was approximately RMB237.0 million, representing an increase of approximately 9.1% from the fourth quarter of 2011 and an increase of approximately 51.2% over the same period in 2011.

However, the online game revenue for the first quarter of 2012 was approximately RMB191.6 million, representing a decrease of approximately 0.5% from the fourth quarter of 2011 and an increase of approximately 27.2% over the same period in 2011.

Besides, the mobile Internet business revenue for the first quarter of 2012 was approximately RMB45.4 million, representing an increase of approximately 84.1% from the fourth quarter of 2011 and an increase of approximately 644.3% over the same period in 2011.

Cost of revenue

Cost of revenue for the first quarter of 2012 was approximately RMB28.3 million, representing a decrease of approximately 0.2% from the fourth quarter of 2011 and an increase of approximately 94.4% over the same period in 2011.

Other income and gains

Other income and gains of approximately RMB4.0 million were recorded for the first quarter of 2012, compared to other income and gains that of approximately RMB17.4 million and approximately RMB9.9 million for the fourth quarter of 2011 and the same period in 2011, respectively.

Selling and marketing expenses

Selling and marketing expenses for the first quarter of 2012 were approximately RMB33.5 million, representing a decrease of approximately 27.6% from the fourth quarter of 2011 and an increase of approximately 32.3% over the same period in 2011.

Administrative expenses

Administrative expenses for the first quarter of 2012 were approximately RMB58.9 million, representing a decrease of approximately 1.0% from the fourth quarter of 2011 and representing an increase of approximately 26.4% over the same period in 2011.

Development costs

Development costs for the first quarter of 2012 were approximately RMB45.8 million, representing a decrease of approximately 3.4% from the fourth quarter of 2011 and an increase of approximately 12.8% over the same period in 2011.

Other expenses

Other expenses for the first quarter of 2012 were approximately RMB1.7 million, representing a decrease of approximately 65.9% from the fourth quarter of 2011 and a decrease of approximately 8.7% over the same period in 2011.

Profit for the period

Profit for the period for the first quarter of 2012 was approximately RMB55.9 million, representing an increase of approximately 621.2% from the fourth quarter of 2011 and an increase of approximately 61.1% over the same period in 2011. As a percentage of revenue, profit for the period accounted for approximately 23.6% for the first quarter of 2012, compared to approximately 3.6% for the fourth quarter of 2011 and approximately 22.1% for the same period of 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 first quarter of 2012 was approximately RMB55.8 million, representing an increase of approximately 609.5% from the fourth quarter of 2011 and an increase of approximately 61.1% over the same period in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2012 Compared to Fourth Quarter of 2011

The following table sets forth the comparative figures for the first quarter of 2012 and the fourth quarter of 2011:

	Three months ended	
	31 March 2012 <i>(Unaudited)</i> RMB'000	31 December 2011 <i>(Unaudited)</i> RMB'000
Revenue	236,975	217,176
Cost of revenue	<u>(28,275)</u>	<u>(28,337)</u>
Gross profit	208,700	188,839
Other income and gains	3,989	17,369
Selling and marketing expenses	(33,487)	(46,277)
Administrative expenses	(58,911)	(59,529)
Development costs	(45,786)	(47,387)
Other expenses	(1,721)	(5,047)
Net loss on derivative financial instruments	(3,961)	(17,582)
Finance costs	(4,729)	(3,490)
Share of losses of associates	<u>(373)</u>	<u>(439)</u>
Profit before taxation	63,721	26,457
Taxation	<u>(7,848)</u>	<u>(18,710)</u>
Profit for the period	<u>55,873</u>	<u>7,747</u>
Profit for the period attributable to:		
- Owners of the Company	55,771	7,861
- Non-controlling interests	<u>102</u>	<u>(114)</u>
	<u>55,873</u>	<u>7,747</u>

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 31 March 2012 was approximately RMB237.0 million, representing an increase of approximately 9.1% as compared to approximately RMB217.2 million for the three months ended 31 December 2011.

Online game

Our online game revenue for the three months ended 31 March 2012 was approximately RMB191.6 million, representing a decrease of approximately 0.5% as compared to approximately RMB192.5 million for the three months ended 31 December 2011.

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

	Three months ended			
	31 March 2012		31 December 2011	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
PRC	164,025	85.6	164,209	85.3
Overseas	<u>27,556</u>	<u>14.4</u>	<u>28,304</u>	<u>14.7</u>
	<u>191,581</u>	<u>100.0</u>	<u>192,513</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 31 March 2012 was approximately RMB164.0 million, representing a decrease of approximately 0.1% as compared to approximately RMB164.2 million for the three months ended 31 December 2011.

The online game revenue derived from overseas markets for the three months ended 31 March 2012 was approximately RMB27.6 million, representing a decrease of approximately 2.6% as compared to approximately RMB28.3 million for the three months ended 31 December 2011.

Mobile Internet business

The mobile Internet business revenue for the three months ended 31 March 2012 was approximately RMB45.4 million, representing an increase of approximately 84.1% as compared to approximately RMB24.7 million for the three months ended 31 December 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 March 2012 was approximately RMB28.3 million, keep at a steady level as compared with the three months ended 31 December 2011.

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 March 2012 and 31 December 2011 were approximately RMB16.1 million and approximately RMB10.1 million, respectively.

Gross profit

Our gross profit for the three months ended 31 March 2012 was approximately RMB208.7 million, representing an increase of approximately 10.5% as compared to approximately RMB188.8 million for the three months ended 31 December 2011.

The gross profit margin for the three months ended 31 March 2012 was approximately 88.1%, which represented an increase of approximately 1.1% as compared with the three months ended 31 December 2011.

Other income and gains

Other income and gains for the three months ended 31 March 2012 were approximately RMB4.0 million, representing a decrease of approximately 77.0% as compared with the three months ended 31 December 2011. The decrease in other income and gains was mainly caused by the decrease in government grants received by Fujian NetDragon Websoft Co., Ltd. (“NetDragon (Fujian)”) and Fujian TQ Digital Inc. (“TQ Digital”) from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳).

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2012 were approximately RMB33.5 million, representing a decrease of approximately 27.6% as compared with the three months ended 31 December 2011. The decrease in the amount of selling and marketing expenses was mainly due to the decrease in advertising and promotion activities for Eudemons Online and Dungeon Keeper™ Online.

The Group re-allocated the resources for the development of the mobile Internet business. As at 31 March 2012, the number of operation and marketing staff in the mobile Internet business was 207, which has increased by approximately 68.3%, as compared with the number of staff as at 31 December 2011. The selling and marketing expenses of mobile Internet business for the three months ended 31 March 2012 and 31 December 2011 were approximately RMB3.5 million and approximately RMB8.5 million, respectively.

Administrative expenses

Administrative expenses decreased by approximately 1.0% to approximately RMB58.9 million for the three months ended 31 March 2012 as compared with the three months ended 31 December 2011.

Besides that, the Group re-allocated the resources for the mobile Internet business, integrated application development and other new business divisions. As at 31 March 2012, the total number of accounting, finance and general administration staff in the mobile Internet business, integrated application development and other new business divisions was 68, which has increased by approximately 61.9%, as compared with the number of staff as at 31 December 2011. The total administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 31 March 2012 and 31 December 2011 were approximately RMB15.5 million and approximately RMB11.1 million, respectively.

Development costs

Development costs decreased by approximately 3.4% to approximately RMB45.8 million for the three months ended 31 March 2012 as compared with the three months ended 31 December 2011. The decrease in the amount of development costs was mainly caused by the effective control of staff costs.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 March 2012, the total number of research and development staff in the mobile Internet business and integrated application development was 437, which has increased by approximately 30.1%, as compared with the number of staff as at 31 December 2011. The total development costs of mobile Internet business and integrated application development for the three months ended 31 March 2012 and 31 December 2011 were approximately RMB15.9 million and approximately RMB11.2 million, respectively.

Other expenses

Other expenses for the three months ended 31 March 2012 were approximately RMB1.7 million, which represented a decrease of approximately 65.9% as compared with the three months ended 31 December 2011. The decrease was mainly caused by the decrease in (i) donation to the Fujian Haixi Youth Business Foundation* (福建海西青年創業基金會) to support the youth entrepreneurship contribution; (ii) amortization of intangible assets; and (iii) business tax of inter-group sales.

* *For identification purpose only*

Net loss on derivative financial instruments and finance costs

Net loss on derivative financial instruments and finance costs decreased by approximately 58.8% to approximately RMB8.7 million for the three months ended 31 March 2012 as compared with the three months ended 31 December 2011, which was mainly due to the decrease in fair value loss and the rate of return being recognized by the issuances of series A preferred shares (the “Series A Preferred Shares”) and series B preferred shares (the “Series B Preferred Shares”) by 91 Limited.

Taxation

Taxation for the three months ended 31 March 2012 was approximately RMB7.8 million, which dropped by approximately 58.1% as compared with the three months ended 31 December 2011. The decrease as compared with the three months ended 31 December 2011 was the decrease 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 March 2012 was approximately RMB55.8 million, representing an increase of approximately RMB47.9 million as compared with approximately RMB7.9 million for the three months ended 31 December 2011.

First Quarter of 2012 Compared to First Quarter of 2011

The following table sets forth the comparative figures for the first quarter of 2012 and 2011:

	Three months ended	
	31 March 2012	31 March 2011
	<i>(Unaudited)</i>	<i>(Unaudited)/ (Restated)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	236,975	156,755
Cost of revenue	<u>(28,275)</u>	<u>(14,543)</u>
Gross profit	208,700	142,212
Other income and gains	3,989	9,912
Selling and marketing expenses	(33,487)	(25,318)
Administrative expenses	(58,911)	(46,591)
Development costs	(45,786)	(40,577)
Other expenses	(1,721)	(1,885)
Net loss on derivative financial instruments	(3,961)	—
Finance costs	(4,729)	—
Share of losses of associates	<u>(373)</u>	<u>—</u>
Profit before taxation	63,721	37,753
Taxation	<u>(7,848)</u>	<u>(3,081)</u>
Profit for the period	<u>55,873</u>	<u>34,672</u>
Profit for the period attributable to:		
- Owners of the Company	55,771	34,612
- Non-controlling interests	<u>102</u>	<u>60</u>
	<u>55,873</u>	<u>34,672</u>

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 31 March 2012 was approximately RMB237.0 million, representing an increase of approximately 51.2% as compared to approximately RMB156.8 million for the three months ended 31 March 2011

Online game

Our online game revenue for the three months ended 31 March 2012 was approximately RMB191.6 million, representing an increase of approximately 27.2% as compared to approximately RMB150.7 million for the three months ended 31 March 2011.

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

	Three months ended			
	31 March 2012		31 March 2011	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	164,025	85.6	117,975	78.3
Overseas	<u>27,556</u>	<u>14.4</u>	<u>32,681</u>	<u>21.7</u>
	<u>191,581</u>	<u>100.0</u>	<u>150,656</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 31 March 2012 was approximately RMB164.0 million, representing an increase of approximately 39.0% as compared to approximately RMB118.0 million for the three months ended 31 March 2011. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from new Chinese expansion packs “Edge of Night” and “Trumpet of Legionaire” of Eudemons Online during the period under review.

The online game revenue derived from overseas markets for the three months ended 31 March 2012 amounted to approximately RMB27.6 million, representing a decrease of approximately 15.7% as compared with that of approximately RMB32.7 million for the three months ended 31 March 2011.

Mobile Internet business

The mobile Internet business revenue for the three months ended 31 March 2012 was approximately RMB45.4 million, representing an increase of approximately 644.3% as compared to approximately RMB6.1 million, which was previously classified as “Other income and gains”, for the three months ended 31 March 2011. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to 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 March 2012 increased by approximately 94.4% to approximately RMB28.3 million as compared with that of approximately RMB14.5 million for the three months ended 31 March 2011. The increase was mainly due to (i) the increase in 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 March 2012 was approximately RMB208.7 million, representing an increase of approximately 46.8% as compared to approximately RMB142.2 million for the three months ended 31 March 2011.

However, the gross profit margin for the three months ended 31 March 2012 was approximately 88.1%, which represented a decrease of approximately 2.6% as compared with the three months ended 31 March 2011.

Other income and gains

Other income and gains for the three months ended 31 March 2012 decreased by approximately 59.8% to approximately RMB4.0 million as compared with the three months ended 31 March 2011. 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 interest income for the three months ended 31 March 2012.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 March 2012 increased by approximately 32.3% to approximately RMB33.5 million as compared with the three months ended 31 March 2011. The increase in selling and marketing expenses was mainly due to (i) the increase in advertising and promotion activities for Conquer Online, Dungeon Keeper™ Online 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 March 2012, the number of operation and marketing staff in the mobile Internet business was 207, which was increased by approximately 5.6%, as compared with the number of staff as at 31 March 2011. The selling and marketing expenses of mobile Internet business for the three months ended 31 March 2012 and 31 March 2011 were approximately RMB3.5 million and approximately RMB0.4 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 26.4% to approximately RMB58.9 million for the three months ended 31 March 2012 as compared with the three months ended 31 March 2011. The increase in administrative expenses was mainly due to (i) the increase in expenditure in repair and maintenance and technical support; and (ii) the increase in expenditure of share-based payments for the grant of share options to certain eligible participants as incentive 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 mobile Internet business, integrated application development and other new business divisions. As at 31 March 2012, the total number of accounting, finance and general administration staff in the mobile Internet business, integrated application development and other new business divisions was 68, which has increased by approximately 3,300.0%, as compared with the number of staff as at 31 March 2011. The administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 31 March 2012 and 31 March 2011 were approximately RMB15.5 million and approximately RMB0.8 million, respectively.

Development costs

Development costs increased by approximately 12.8% to approximately RMB45.8 million for the three months ended 31 March 2012 as compared with the three months ended 31 March 2011. The number of staff in our development team increased from 1,496 as at 31 March 2011 to 1,574 as at 31 March 2012. The increase in the amount of development costs was caused by the increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 March 2012, the total number of research and development staff in the mobile Internet business and integrated application development was 437, which has increased by approximately 320.2%, as compared with the number of staff as at 31 March 2011. The total development costs of mobile Internet business and integrated application development for the three months ended 31 March 2012 and 31 March 2011 were approximately RMB15.9 million and approximately RMB4.9 million, respectively.

Other expenses

Other expenses for the three months ended 31 March 2012 were approximately RMB1.7 million, which represented a decrease of approximately 8.7% as compared with the three months ended 31 March 2011.

Taxation

Taxation for the three months ended 31 March 2012 was rose by approximately 154.7% as compared with the three months ended 31 March 2011. The increase as compared with the three months ended 31 March 2011 was the effect of the increase in taxable profit.

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 March 2012 was approximately RMB55.8 million, representing an increase of approximately RMB21.2 million as compared with approximately RMB34.6 million for the three months ended 31 March 2011.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2012, we had bank deposits, bank balances and cash of approximately RMB1,497.4 million as compared with approximately RMB1,468.9 million as at 31 December 2011.

As at 31 March 2012, the Group had net current assets of approximately RMB1,390.1 million as compared with approximately RMB1,329.7 million as at 31 December 2011.

STAFF INFORMATION

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

	At 31 March 2012	At 31 December 2011	At 31 March 2011
Research and development	1,574	1,493	1,496
Operation and marketing	648	537	368
Accounting, finance and general administration	<u>398</u>	<u>379</u>	<u>241</u>
Total	<u>2,620</u>	<u>2,409</u>	<u>2,105</u>

As at 31 March 2012, we had a total of 2,620 employees (31 December 2011 and 31 March 2011: 2,409 and 2,105, respectively), 732 of which are game developers of the research and development department, representing approximately 27.9% 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 March 2012	At 31 December 2011	At 31 March 2011
Research and development	326	231	27
Operation and marketing	207	123	176
Accounting, finance and general administration	<u>68</u>	<u>42</u>	<u>—</u>
Total	<u>601</u>	<u>396</u>	<u>203</u>

The number of employees of integrated application development and other new business divisions as at 31 March 2012 under research and development was 111 (31 December 2011 and 31 March 2011: 105 and 2, respectively).

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

During the period 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 game.

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 period under review, the Group has continued to introduce new expansion packs to enrich its existing games. The Group has carried out an internal test for a new expansion pack of Eudemons Online called “Legacy of Asgard”* (神域爭霸) in March 2012.

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 during the period under review.

In respect of self-operated games, we have launched the expansion pack “Invasion of Pirates”* (海盜來襲) for Conquer Online in English, Arabian, traditional Chinese, French and Spanish in January 2012 and the expansion pack called “Demon Rising”* (滅世魔劫) of Eudemons Online in Malaysian in March 2012. We expected the offer of additional in-game items and premium features to bolster the popularity of its online games.

* *For identification purpose only*

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

Games in the pipeline

To cope with the intensifying competition in the online game industry, in addition to upgrading its existing 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 has been carried out in April 2012.

Mobile Internet Business

During the period 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 the first quarter of 2012, the Group continues to launch various self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. As of March 2012, 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), HiMarket* (安卓市場), etc.) which is one of the advanced mobile phone applications in the PRC, has broken its record.

The Group 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.

* For identification purpose only

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.

As of 31 March 2012, the mobile Internet business of the Group has 601 employees, representing approximately 22.9% of the overall staff headcount, which secured the leading position of the Group's mobile Internet business in the future.

Enhancement of R&D capabilities

The intense competition in the online game and mobile Internet application industries has driven the Group to focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 31 March 2012, the Group's overall staff headcount was 1,574, of which 732 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 of 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.

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 has been carried out in April 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. It is estimated that new expansion packs of the major products of the Group, including *Eudemons Online*, *Conquer Online*, *Zero Online* and *Disney Fantasy Online*, will be released in 2012, among which, the new expansion pack of *Zero Online* called “*Catastrophe of the Worms*” (蟲族浩劫) will carry out its open beta testing in May 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.

* *For identification purpose only*

*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.

*Age of Emblem** (紋章物語) (previously named as *Age of Magic*)

The first self-developed ARPG online game emphasizes community interaction, which carries features of animated style, loveable and clear graphic design. We have carried out the first closed beta testing for this game in March 2012.

Mobile Internet Business

The Group will further develop mobile Internet products, including smart-phone software applications and games for smart-phones. By launching updated versions for existing products on an ongoing basis, the Group can offer users with more user-friendly product experience and cater 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.

* *For identification purpose only*

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, a connected person of the Company under the Listing Rules. Pursuant to the Subscription Agreement, NetDragon (BVI) subscribed for, and 91 Limited issued and allotted, 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 “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 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 developer, 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 period 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.

* *For identification purpose only*

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 the 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. It is expected that the TQ Building* (天晴樓) 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, the construction of staff quarters is also in steady progress. There will be nearly 10,000 creative talents working in the area.

As at 31 March 2012, the Group had capital commitments in relation to the development of the Project of approximately RMB255.1 million, in which the Group had settled approximately RMB137.4 million.

As at the date of this announcement, the Group had not acquired any land in the adjacent area of the Property and the Owned Land, except for the acquisitions of the Property and the Owned Land as stated in the circular of the Company dated 19 May 2010 and the announcement of the Company dated 25 October 2010. However, we have the intention to make further acquisition of land and construction projects on the Property, the Owned Land and newly acquired land (if any) in the future for implementation of the Group's participation in the Project.

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

OTHER EVENTS

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

* *For identification purpose only*

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 March 2012, 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 <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	266,961,520(L)	51.88%
Liu Dejian <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%
Liu Dejian <i>(Note 3)</i>	Shanghai Tiankun Digital Technology Ltd. (“NetDragon (Shanghai)”)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	266,761,520(L)	51.84%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Luyuan <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	265,361,520(L)	51.57%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%
Zheng Hui <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan <i>(Note 4)</i>	The Company	Beneficial owner and through a controlled corporation	14,285,000(L)	2.78%
Chao Guowei, Charles <i>(Note 5)</i>	The Company	Beneficial owner	597,019(L)	0.12%
Lee Kwan Hung <i>(Note 5)</i>	The Company	Beneficial owner	597,019(L)	0.12%
Liu Sai Keung, Thomas <i>(Note 5)</i>	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 3.83%, 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 51.51% 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 2.47% 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 0.31% of the issued share capital of the Company. Accordingly, Chen Hongzhan is deemed to be interested in 2.78% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited and his direct beneficial interest in the issued share capital of the Company.
5. On 22 July 2011, the Company granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.

Save as disclosed above, to the best knowledge of the Directors, as at 31 March 2012, 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 March 2012, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	36.16%
Eagle World International Inc. <i>(Note 2)</i>	The Company	Beneficial owner	32,952,920(L)	6.40%
Flowson Company Limited <i>(Note 2)</i>	The Company	Through a controlled corporation	32,952,920(L)	6.40%
Richmedia Holdings Limited	The Company	Beneficial owner	26,344,800(L)	5.12%
IDG Group <i>(Note 3)</i>	The Company	Beneficial owner	78,333,320(L)	15.22%
Ho Chi Sing <i>(Note 3)</i>	The Company	Through controlled corporations	78,333,320(L)	15.22%
Zhou Quan <i>(Note 3)</i>	The Company	Through controlled corporations	73,490,095(L)	14.28%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%

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
Edmond de Rothschild Assets Management Hong Kong Limited (Note 4)	The Company	Investment manager	30,888,000	6.00%
Edmond de Rothschild Assets Management (Note 4)	The Company	Investment manager	30,888,000	6.00%

Notes:

1. The letter “L” denotes the shareholders’ 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 is 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 Ho Chi Sing.
 - 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 Ho Chi Sing.
 - 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 Ho Chi Sing.

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 March 2012.

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. No option has been granted during the three months ended 31 March 2012 under the Main Board Share Option Scheme.

SHARE AWARD SCHEMES

The Company

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 March 2012, total awarded amount (the “Awarded Amount”) of approximately HKD10,000 was awarded to a number of selected employees. The awarded shares, which were purchased with the Awarded Amount and allocated by the Trustee from the total number of shares purchased by the Trustee on the market out of cash paid by the Company, will be transferred to the selected employees at nil consideration upon vesting between 6 November 2008 and 6 November 2012. Subject to 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.

91 Limited

On 28 December 2011, 91 Limited adopted a share award scheme (the “91 Share Award Scheme”) in which selected participants of 91 Limited are entitled to participate. Unless early terminated by the board of directors of 91 Limited, the 91 Share Award Scheme shall be valid and effective for a term of ten years commencing on 28 December 2011. The maximum number of shares which may be granted to the participants under the 91 Share Award Scheme is 9,615,000 shares or such number of shares as determined by the board of directors of 91 Limited from time to time.

Pursuant to the rules of the 91 Share Award Scheme, 91 Limited has signed an agreement with the Trustee, for the purpose of administering the 91 Share Award Scheme and holding the awarded shares before they are vested.

On 8 February 2012, 2,981,300 awarded shares were granted to a number of selected participants. The awarded shares, which were purchased at par value of USD0.0001 per share by the Trustee from Treasure New Limited, an indirect wholly owned subsidiary of the Company, will be transferred to the selected participants at nil consideration upon vesting between 8 February 2012 and 7 June 2014. Subject to, inter alia, the receipt by the board of directors of 91 Limited of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notice issued by the Trustee to the selected participants; and (ii) a confirmation from 91 Limited that all vesting conditions having been fulfilled, the awarded shares will be transferred to the selected participants at nil consideration upon vesting.

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

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 throughout the three months ended 31 March 2012.

AUDIT COMMITTEE

The Company established the Audit Committee on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provisions. 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, control documents and other contracts of the Group.

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

The terms of reference of the Audit Committee are posted on the websites of the Company and on the Stock Exchange. The Group’s unaudited consolidated financial results for the three months ended 31 March 2012 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 three months ended 31 March 2012, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company’s listed securities.

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

Hong Kong, 25 May 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.