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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 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 six months ended 30 June 2012. The interim 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 six months ended 30 June 2012 together with the comparative figures in 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Six months ended 30 June	
		2012	2011
	<i>NOTES</i>	(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Revenue	4	513,108	341,059
Cost of revenue		<u>(70,733)</u>	<u>(28,652)</u>
Gross profit		442,375	312,407
Other income and gains	4	15,303	15,484
Selling and marketing expenses		(70,565)	(59,753)
Administrative expenses		(114,740)	(95,466)
Development costs		(95,950)	(75,602)
Other expenses		(16,707)	(2,653)
Net loss on derivative financial instruments		(23,339)	—
Finance costs		(9,048)	—
Share of losses of associates		<u>(658)</u>	<u>(77)</u>
Profit before taxation		126,671	94,340
Taxation	6	<u>(25,812)</u>	<u>(16,698)</u>
Profit for the period	7	100,859	77,642
Other comprehensive income (expense):			
Exchange differences arising on translation of foreign operations		<u>72</u>	<u>(547)</u>
Total comprehensive income for the period		<u>100,931</u>	<u>77,095</u>
Profit for the period attributable to:			
- Owners of the Company		100,803	77,529
- Non-controlling interests		<u>56</u>	<u>113</u>
		<u>100,859</u>	<u>77,642</u>
Total comprehensive income attributable to:			
- Owners of the Company		100,875	76,982
- Non-controlling interests		<u>56</u>	<u>113</u>
		<u>100,931</u>	<u>77,095</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share	9		
- Basic		19.65	14.72
- Diluted		<u>19.61</u>	<u>14.72</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

		30 June 2012	31 December 2011
		(Unaudited)	(Audited)
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	10	223,112	192,119
Prepaid lease payments	11	140,352	86,298
Investment property	11	15,897	15,809
Deposit paid for acquisition of property, plant and equipment		—	19,050
Intangible assets		3,379	4,520
Interests in associates	12	12,011	12,669
Available-for-sale investments		5,000	4,000
Loan receivables		4,837	6,314
Deferred tax assets		54	54
		<u>404,642</u>	<u>340,833</u>
Current assets			
Prepaid lease payments		2,902	1,784
Loan receivables		1,288	1,091
Trade receivables	13	47,158	41,555
Other receivables, prepayments and deposits	13	97,145	41,429
Amounts due from related companies	14	2,265	1,200
Pledged bank deposit	17	183,967	—
Bank deposits		100,000	40,000
Bank balances and cash		1,319,828	1,428,928
		<u>1,754,553</u>	<u>1,555,987</u>

		30 June 2012	31 December 2011
		(Unaudited)	(Audited)
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade payables	15	18,024	5,001
Other payables and accruals		88,647	121,353
Deferred income		30,657	25,528
Amount due to a related company	16	—	965
Secured bank borrowing	17	184,580	—
Other financial liability	18	3,098	—
Promissory notes	19	—	30,623
Income tax payable		<u>40,127</u>	<u>42,849</u>
		<u>365,133</u>	<u>226,319</u>
Net current assets		<u>1,389,420</u>	<u>1,329,668</u>
Total assets less current liabilities		<u>1,794,062</u>	<u>1,670,501</u>
Non-current liabilities			
Redeemable convertible preferred shares	20	170,034	131,675
Conversion option derivative liability	20	<u>62,587</u>	<u>39,932</u>
		<u>232,621</u>	<u>171,607</u>
Net assets		<u>1,561,441</u>	<u>1,498,894</u>
Capital and reserves			
Share capital		38,226	38,226
Share premium and reserves		<u>1,517,820</u>	<u>1,461,126</u>
Equity attributable to owners of the Company		1,556,046	1,499,352
Non-controlling interests		<u>5,395</u>	<u>(458)</u>
		<u>1,561,441</u>	<u>1,498,894</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Attributable to owners of the Company														Total equity RMB'000
	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	
	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	—	—	—	—	—	—	—	—	—	—	—	77,529	77,529	113	77,642
Other comprehensive expenses for the period	—	—	—	—	—	—	—	—	—	—	(547)	—	(547)	—	(547)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	—	(547)	77,529	76,982	113	77,095
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	3,054	—	—	3,054	—	3,054
Final dividend for 2010 paid	—	—	—	—	—	—	(8,994)	—	—	—	—	—	(8,994)	—	(8,994)
Interim dividend for 2011	—	—	—	—	—	—	43,957	—	—	—	—	(43,957)	—	—	—
At 30 June 2011 (unaudited)	<u>39,264</u>	<u>1,157,364</u>	<u>1,963</u>	<u>—</u>	<u>9,946</u>	<u>121,339</u>	<u>43,957</u>	<u>673</u>	<u>(8,494)</u>	<u>12,593</u>	<u>(57,210)</u>	<u>201,344</u>	<u>1,522,739</u>	<u>(427)</u>	<u>1,522,312</u>
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	—	—	—	—	—	—	—	—	—	—	—	100,803	100,803	56	100,859
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	72	—	72	—	72
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	72	100,803	100,875	56	100,931
Issue of shares by a subsidiary	—	—	—	—	99	—	—	—	—	—	—	—	99	1	100
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	5,782	—	—	5,782	—	5,782
Recognition of equity-settled share-based payments granted by a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	5,664	5,664
Partial disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	132	132
Final dividend for 2011 paid	—	—	—	—	—	—	(50,062)	—	—	—	—	—	(50,062)	—	(50,062)
Interim dividend for 2012	—	—	—	—	—	—	62,927	—	—	—	—	(62,927)	—	—	—
At 30 June 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>62,927</u>	<u>673</u>	<u>(7,552)</u>	<u>24,836</u>	<u>(58,043)</u>	<u>225,836</u>	<u>1,556,046</u>	<u>5,395</u>	<u>1,561,441</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

	Six months ended 30 June 2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
NET CASH FROM OPERATING ACTIVITIES	<u>71,335</u>	<u>120,127</u>
INVESTING ACTIVITIES:		
Acquisition of an associate	—	(2,500)
Purchase of property, plant and equipment	(43,840)	(40,933)
Purchase of prepaid lease payments	(36,851)	—
Placement of bank deposits	(70,000)	—
Placement of pledged bank deposit	(183,967)	—
Withdrawal of bank deposits	10,000	120,828
Other investing cash flows	<u>8,720</u>	<u>(6,780)</u>
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(315,938)</u>	<u>70,615</u>
FINANCING ACTIVITIES:		
Dividends paid	(50,062)	(8,994)
New bank loan raised	184,580	—
Other financing activities	<u>294</u>	<u>—</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>134,812</u>	<u>(8,994)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(109,791)	181,748
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,428,928	877,823
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>691</u>	<u>31</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u><u>1,319,828</u></u>	<u><u>1,059,602</u></u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 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, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

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

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE, OTHER INCOME AND GAINS

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Online game revenue	392,573	325,519
Mobile Internet business revenue	<u>120,535</u>	<u>15,540</u>
	<u>513,108</u>	<u>341,059</u>
Other income and gains		
Business tax refunded	1,080	—
Gain on fair value changes of investment property	—	1,597
Government grants	359	4,371
Interest income	12,451	7,319
Net gain on held for trading investments	—	290
Rental income, net of negligible outgoing expenses	201	154
Others	<u>1,212</u>	<u>1,753</u>
	<u>15,303</u>	<u>15,484</u>

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 segments:

Six months ended 30 June 2012

	Online game (Unaudited) RMB’000	Mobile Internet business (Unaudited) RMB’000	Total (Unaudited) RMB’000
Segment revenue	<u>392,573</u>	<u>120,535</u>	<u>513,108</u>
Segment profit (loss)	<u>178,550</u>	<u>(19,472)</u>	159,078
Unallocated income and gains			14,944
Unallocated expenses			(46,693)
Share of losses of associates			<u>(658)</u>
Profit before taxation			<u>126,671</u>

Six months ended 30 June 2011

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

5. SEGMENT INFORMATION (continued)

The segment loss of mobile Internet business during the six months ended 30 June 2012 included net loss on derivative financial instruments relating to redeemable convertible preferred shares of RMB20,241,000 (2011: Nil) and finance costs relating to redeemable convertible preferred shares and promissory notes of RMB9,048,000 (2011: Nil).

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 profit whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, share of losses of associates, net loss on other derivative financial instruments, income tax expenses and unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Online game	1,607,360	1,513,587
Mobile Internet business	<u>273,187</u>	<u>216,745</u>
Total segment assets	1,880,547	1,730,332
Unallocated	<u>278,648</u>	<u>166,488</u>
	<u>2,159,195</u>	<u>1,896,820</u>

6. TAXATION

	Six months ended 30 June 2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
The charge comprises:		
Hong Kong Profits Tax	473	3,722
The People's Republic of China (the "PRC") Enterprise Income Tax ("EIT")	25,239	12,915
Taxation in other jurisdictions	<u>100</u>	<u>61</u>
	<u>25,812</u>	<u>16,698</u>

6. TAXATION (continued)

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	2,816	2,488
Other staff costs		
Salaries and other benefits	133,479	107,971
Contributions to retirement benefits schemes	10,811	9,195
Share-based payments expense	10,018	2,051
	<u>157,124</u>	<u>121,705</u>
Amortisation of intangible assets (included in cost of revenue)	1,225	3,691
Amortisation of intangible assets (included in other expenses)	1,368	1,179
Release of prepaid lease payments (included in administrative expenses)	729	558
Depreciation of property, plant and equipment	12,949	19,785
Operating lease rentals in respect of:		
- rented premises	8,465	8,449
- computer equipment	27,431	14,354
Net foreign exchange loss	1,559	7,059
Written off of intangible assets (included in other expenses)	2,036	—
Gain on disposal of property, plant and equipment	(1)	<u>(186)</u>

8. DIVIDENDS

On 7 June 2012, a dividend of HKD0.12 per share (2011: HKD0.02 per share) was paid to shareholders as the final dividend for 2011. The aggregated amount of the final dividend declared and paid in current interim period amounted to approximately RMB50,062,000 (2011: RMB8,994,000).

The Directors have determined that an interim dividend of HKD0.15 per share (2011: HKD0.10 per share) will be paid to the shareholders of the Company whose names appear in the register of members on 11 September 2012.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share		
- profit for the period attributable to the owners of the Company	<u>100,803</u>	<u>77,529</u>
	Number of shares	
	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	'000	'000
Number of shares in issue during the period, for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	512,933	526,675
Effect of dilutive potential shares from the Company's share option scheme	<u>1,079</u>	<u>—</u>
Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>514,012</u>	<u>526,675</u>

The computation of diluted earnings per share for the period ended 30 June 2012 has not taken into account the effect of share awards and redeemable convertible preferred shares issued by a subsidiary of the Company since these are anti-dilutive.

9. EARNINGS PER SHARE (continued)

The computation of diluted earnings per share for the period ended 30 June 2011 has 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 period.

10. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent approximately RMB43,840,000 (2011: RMB40,933,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB7,245,000 (2011: RMB2,715,000) in office and computer equipment and RMB35,632,000 (2011: RMB31,123,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

11. PREPAID LEASE PAYMENTS/INVESTMENT PROPERTY

During the period ended 30 June 2012, the Group spent approximately RMB55,901,000 (2011: Nil) for the acquisition of prepaid lease payment to expand its office buildings located in Fuzhou. Among the RMB55,901,000, RMB19,050,000 was paid in 2011 and recorded as deposit paid for acquisition of property, plant and equipment as at 31 December 2011. RMB36,851,000 was paid during the period ended 30 June 2012. The Group is in the process of obtaining the land use right certificate.

The Group's investment property as at 30 June 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 30 June 2012 and 31 December 2011 (2011: Increase in fair value of approximately RMB1,597,000).

12. INTERESTS IN ASSOCIATES

	30 June 2012	31 December 2011
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Unlisted investments outside Hong Kong:		
Cost of investments	13,250	13,250
Share of post-acquisition losses	<u>(1,239)</u>	<u>(581)</u>
	<u>12,011</u>	<u>12,669</u>
Share of net assets - unlisted	<u>8,252</u>	<u>8,910</u>

13. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Trade receivables	47,158	41,555
Other receivables, prepayments and deposits	<u>97,145</u>	<u>41,429</u>
Total	<u>144,303</u>	<u>82,984</u>

The Group allows a credit period 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.

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
0 - 30 days	14,784	22,261
31 - 60 days	15,107	5,364
61 - 90 days	8,534	6,737
Over 90 days	<u>8,733</u>	<u>7,193</u>
Total	<u>47,158</u>	<u>41,555</u>

Included in other receivables, prepayments and deposits, RMB45,773,000 as at 30 June 2012 was paid to an agent to repurchase the Company's shares from the market (31 December 2011: Nil). Subsequent to the end of the current interim period, 9,635,500 shares of the Company were repurchased from the market at an aggregate consideration of RMB45,773,000 in July 2012.

14. AMOUNTS DUE FROM RELATED COMPANIES

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

15. TRADE PAYABLES

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

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
0 - 90 days	17,298	4,641
91 - 180 days	374	323
181 - 365 days	338	26
Over 365 days	<u>14</u>	<u>11</u>
Total	<u>18,024</u>	<u>5,001</u>

16. AMOUNT DUE TO A RELATED COMPANY

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

17. SECURED BANK BORROWING

During the current interim period, the Group obtained new bank loan amounting to approximately RMB184,580,000. The secured bank loan is denominated in HKD, carries interest rate of 4.14% per annum and repayable on 13 June 2013. The loan is secured by the pledged bank deposit of the Group which is denominated in Euros ("EURO").

18. OTHER FINANCIAL LIABILITY

Derivative not under hedge accounting

During the current interim period, the Group entered into foreign currency forward contract with a bank for a period of 1 year in relation to the pledged bank deposit and bank borrowing arrangement as mentioned in note 17.

Major terms of foreign currency forward contract for sale of EURO are as follows:

Notional amount	Maturity	Exchange rate
Sell EURO24,426,000	13 June 2013	EURO1: HKD9.7

As at 30 June 2012, fair value loss of approximately RMB3,098,000 was recognised in the profit or loss. The fair value of foreign currency forward contract is measured using quoted forward exchange rate at the end of reporting period.

19. 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.

20. 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 30 June 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 and other derivatives. 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 and other derivatives are measured at fair value with changes in fair value recognised in profit or loss.

20. 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 below:

	Liability component	Conversion option and other derivatives
	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2011 and 1 January 2012	131,675	39,932
Exchange realignment	672	180
Converted from promissory notes	29,262	2,234
Interest charge	8,425	—
Loss arising on changes of fair value	<u>—</u>	<u>20,241</u>
At 30 June 2012	<u>170,034</u>	<u>62,587</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 18.11%, 17.78% and 18.45% were used as at 30 June 2012, 17 February 2012 and 31 December 2011, respectively.

20. REDEEMABLE CONVERTIBLE PREFERRED SHARES (continued)

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 30 June 2012, 17 February 2012 and 31 December 2011 were as follows:

Series A redeemable convertible preferred shares

	30 June 2012	31 December 2011
Risk-free interest rate (i)	0.65%	0.81%
Expected volatility (ii)	65.69%	71.83%

Series B redeemable convertible preferred shares

	30 June 2012	17 February 2012	31 December 2011
Risk-free interest rate (i)	0.52%	0.62%	0.62%
Expected volatility (ii)	66.24%	63.85%	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 Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group.

21. 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.

21. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Equity-settled share option scheme (continued)

In current interim period, options were granted on 23 April 2012. Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Outstanding at 30 June 2012
23 April 2012	23 April 2012 - 22 April 2013	23 April 2013 - 22 April 2022	503,150
23 April 2012	23 April 2012 - 22 April 2014	23 April 2014 - 22 April 2022	604,725
23 April 2012	23 April 2012 - 22 April 2015	23 April 2015 - 22 April 2022	1,006,300
23 April 2012	23 April 2012 - 22 April 2016	23 April 2016 - 22 April 2022	507,875
23 April 2012	23 April 2012 - 22 April 2017	23 April 2017 - 22 April 2022	609,450
			<u>3,231,500</u>

The fair value of the options granted on that date was approximately RMB5,609,000. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD5.61
Exercise price	HKD5.74
Risk-free interest rate	0.895-1.017%
Expected option life	7.7-8.7 years
Expected volatility	48.75%
Expected dividend yield	2.69%

Expected volatility was determined by using the historical volatility of the Company's comparable companies' share price over 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

No options were exercised during the period. The number of share options outstanding at 30 June 2012 was 26,215,100 (31 December 2011: 23,651,900).

21. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Equity-settled share option scheme (continued)

The Group recognised the total expenses of approximately RMB5,762,000 for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB2,970,000) in relation to share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(ii) Share award scheme by the Company

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

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

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB20,000 for the period ended 30 June 2012 (2011: RMB84,000) in relation to share award.

No share awards were granted, vested and released during the current interim period. The number of share awards outstanding at 30 June 2012 and 31 December 2011 were 79,677.

(iii) Share award scheme by a subsidiary of the Company

Pursuant to the announcement of the Company dated 28 December 2011, the subsidiary of the Company, 91 Limited, introduced a share award scheme (the "91 Share Award Scheme"), whereby eligible participants are conferred rights by 91 Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Limited (hereinafter referred to as the "91 Award").

The rationale of the 91 Share Award Scheme is to recognise the contributions by selected participants and to provide incentives in order to retain them for the continual operation and development of 91 Limited and its subsidiaries (hereinafter referred to as "91 Group"), and to attract suitable personnel for further development of the 91 Group. The selected participants are not required to pay for the grant of the 91 Award or for the shares allotted or allocated pursuant to the 91 Award.

21. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(iii) Share award scheme by a subsidiary of the Company (continued)

The maximum number of the 91 Award to a selected participant is not permitted to exceed 1% of the issued share capital and total preferred shares of 91 Limited from time to time. The aggregate number of shares which may be awarded to the selected participants under the 91 Share Award Scheme shall not exceed 9,615,000 shares of 91 Limited or such number of 91 Award as determined by the board of directors of 91 Limited from time to time.

During the current period and as at 30 June 2012, the number of shares granted under 91 Share Award Scheme was 2,981,300 (31 December 2011: Nil). Among the shares of 91 Award granted, 823,983 of the shares of 91 Award vested on 8 February 2012, 823,983 shares of 91 Award vested on 7 June 2012, 823,983 shares of 91 Award will be vested on 7 June 2013 and the remaining 509,351 shares of 91 Award will be vested on 7 June 2014.

The eligibility of participants to participate in the 91 Share Award Scheme and number of shares which are the subject of each 91 Award at each date of grant to a selected participant in accordance with the 91 Share Award Scheme shall be determined at the absolute discretion of the board of directors of 91 Limited to administer the 91 Share Award Scheme.

In determining the number of shares to be awarded, the board of directors of 91 Limited shall have reference to the financial performance of 91 Limited and its subsidiaries as reflected in the profit before taxation of the financial year.

Fair value of the 91 Award at the grant date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the grant date. In determining the fair value, a weighted average cost of capital of 18.17% was used as at the grant date. The Group recognised the total expenses of approximately RMB5,664,000 for the period ended 30 June 2012 (2011: Nil) in relation to the 91 Share Award Scheme.

22. RELATED PARTY TRANSACTIONS

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

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

22. RELATED PARTY TRANSACTIONS (continued)

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 one of the controlling shareholders of the Company, together have 100% 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

Six months ended 30 June	
2012	2011
(Unaudited)	(Unaudited)
RMB'000	RMB'000

Nature of transactions

Rental charges by Fuzhou 851	2,504	1,272
Service fee at recreation centre paid to Fuzhou 851	5,005	3,000
After-sales service fee paid to Fuzhou Tianliang	7,910	5,879
Technical service fee paid to Fuzhou Tianliang	1,166	1,260
Interest received on loan advanced to key management of the Group	<u>17</u>	<u>17</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 30 June 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.

In addition, included in loan receivables at 30 June 2012 were loans advanced to key management of approximately RMB1,500,000 (31 December 2011: RMB1,700,000). The loans carry fixed interest at 4.896% per annum of which RMB200,000 is repayable in 2013 and RMB1,300,000 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:

Six months ended 30 June		
2012	2011	
(Unaudited)	(Unaudited)	
RMB'000	RMB'000	
Salaries, allowances and other short-term employee benefits	4,302	2,170
Contributions to retirement benefits schemes	47	36
Share-based payments expense	<u>1,022</u>	<u>1,691</u>
	<u>5,371</u>	<u>3,897</u>

22. RELATED PARTY TRANSACTIONS (continued)

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

23. CAPITAL COMMITMENTS

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

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>107,371</u>	<u>134,289</u>

24. EVENT AFTER THE REPORTING PERIOD

Issue of share options

On 6 July 2012, the Company granted a total of 735,250 share options to subscribe for up to 735,250 ordinary shares of USD0.01 each in the capital of the Company at an exercise price of HKD6.53 under its share option scheme to certain Eligible Participants. The closing price of the Company's share on grant date was HKD6.27.

Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Number of share options granted
6 July 2012	6 July 2012 – 5 July 2013	6 July 2013 – 5 July 2022	73,525
6 July 2012	6 July 2012 – 5 July 2014	6 July 2014 – 5 July 2022	110,288
6 July 2012	6 July 2012 – 5 July 2015	6 July 2015 – 5 July 2022	147,050
6 July 2012	6 July 2012 – 5 July 2016	6 July 2016 – 5 July 2022	183,812
6 July 2012	6 July 2012 – 5 July 2017	6 July 2017 – 5 July 2022	<u>220,575</u>
			<u><u>735,250</u></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 6 July 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				
	30 June 2012	31 March 2012	31 December 2011	30 September 2011	30 June 2011
PCU	582,000	600,000	612,000	569,000	643,000
ACU	307,000	297,000	310,000	300,000	311,000

Note: As at 30 June 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, Dungeon Keeper™ Online and other games.

The PCU for online games was approximately 582,000 for the three months ended 30 June 2012, representing a decrease of approximately 3.0% from the three months ended 31 March 2012 and representing a decrease of approximately 9.5% from the three months ended 30 June 2011.

We also recorded the ACU for online games of approximately 307,000 for the three months ended 30 June 2012, which represented an increase of approximately 3.4% from the three months ended 31 March 2012 and represented a decrease of approximately 1.3% from the three months ended 30 June 2011.

FINANCIAL PERFORMANCE HIGHLIGHTS
SIX MONTHS ENDED 30 JUNE 2012

The following table sets forth the comparative figures for the six months ended 30 June 2012 and 2011:

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	513,108	341,059
Cost of revenue	<u>(70,733)</u>	<u>(28,652)</u>
Gross profit	442,375	312,407
Other income and gains	15,303	15,484
Selling and marketing expenses	(70,565)	(59,753)
Administrative expenses	(114,740)	(95,466)
Development costs	(95,950)	(75,602)
Other expenses	(16,707)	(2,653)
Net loss on derivative financial instruments	(23,339)	—
Finance costs	(9,048)	—
Share of losses of associates	<u>(658)</u>	<u>(77)</u>
Profit before taxation	126,671	94,340
Taxation	<u>(25,812)</u>	<u>(16,698)</u>
Profit for the period	<u>100,859</u>	<u>77,642</u>
Profit for the period attributable to:		
- Owners of the Company	100,803	77,529
- Non-controlling interests	<u>56</u>	<u>113</u>
	<u>100,859</u>	<u>77,642</u>

Revenue

Revenue for the six months ended 30 June 2012 was approximately RMB513.1 million, representing an increase of approximately 50.4% as compared to approximately RMB341.1 million for the six months ended 30 June 2011.

Online game

Our online game revenue for the six months ended 30 June 2012 was approximately RMB392.6 million, representing an increase of approximately 20.6% as compared to approximately RMB325.5 million for the six months ended 30 June 2011.

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

	For the six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	339,108	86.4	260,258	80.0
Overseas	<u>53,465</u>	<u>13.6</u>	<u>65,261</u>	<u>20.0</u>
	<u>392,573</u>	<u>100.0</u>	<u>325,519</u>	<u>100.0</u>

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the six months ended 30 June 2012 was approximately RMB339.1 million, representing an increase of approximately 30.3% over the six months ended 30 June 2011.

The online game revenue derived from overseas markets for the six months ended 30 June 2012 was approximately RMB53.5 million, representing a decrease of approximately 18.1% over the six months ended 30 June 2011.

Mobile Internet business

The mobile Internet business revenue for the six months ended 30 June 2012 was approximately RMB120.5 million, representing an increase of approximately 675.6% as compared to approximately RMB15.5 million over the same period in 2011.

The following table sets out the breakdown of geographical mobile Internet business revenue of the Group for period indicated below:

	For the six months ended 30 June 2012	
	<i>RMB'000</i>	<i>% of mobile Internet business revenue</i>
PRC	114,040	94.6
Overseas	<u>6,495</u>	<u>5.4</u>
	<u>120,535</u>	<u>100.0</u>

The mobile Internet business revenue derived from the PRC and overseas markets for the six months ended 30 June 2012 was approximately RMB114.0 million and approximately RMB6.5 million, respectively.

Second Quarter of 2012

Revenue

Revenue for the second quarter of 2012 was approximately RMB276.1 million, representing an increase of approximately 16.5% from the first quarter of 2012 and an increase of approximately 49.8% over the same period in 2011.

However, the online game revenue for the second quarter of 2012 was approximately RMB201.0 million, representing an increase of approximately 4.9% from the first quarter of 2012 and an increase of approximately 14.9% over the same period in 2011.

Besides, the mobile Internet business for the second quarter of 2012 was approximately RMB75.1 million, representing an increase of approximately 65.5% from the first quarter of 2012 and an increase of approximately 695.9% over the same period in 2011.

Cost of revenue

Cost of revenue for the second quarter of 2012 was approximately RMB42.5 million, representing an increase of approximately 50.2% from the first quarter of 2012 and an increase of approximately 200.9% over the same period in 2011.

Other income and gains

Other income and gains of approximately RMB11.3 million were recorded for the second quarter of 2012, compared to other income and gains that of approximately RMB4.0 million and approximately RMB5.6 million for the first quarter of 2012 and the same period in 2011, respectively.

Selling and marketing expenses

Selling and marketing expenses for the second quarter of 2012 were approximately RMB37.1 million, representing an increase of approximately 10.7% from the first quarter of 2012 and an increase of approximately 7.7% over the same period in 2011.

Administrative expenses

Administrative expenses for the second quarter of 2012 were approximately RMB55.8 million, representing a decrease of approximately 5.2% from the first quarter of 2012 and representing an increase of approximately 14.2% over the same period in 2011.

Development costs

Development costs for the second quarter of 2012 were approximately RMB50.2 million, representing an increase of approximately 9.6% from the first quarter of 2012 and an increase of approximately 43.2% over the same period in 2011.

Other expenses

Other expenses for the second quarter of 2012 were approximately RMB15.0 million, representing an increase of approximately 770.8% from the first quarter of 2012 and an increase of approximately 1,851.3% over the same period in 2011.

Profit for the period

Profit for the period for the second quarter of 2012 was approximately RMB45.0 million, representing a decrease of approximately 19.5% from the first quarter of 2012 and an increase of approximately 4.7% over the same period in 2011. As a percentage of revenue, profit for the period accounted for approximately 16.3% for the second quarter of 2012, compared to approximately 23.6% for the first quarter of 2012 and approximately 23.3% 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 second quarter of 2012 was approximately RMB45.0 million, representing a decrease of approximately 19.3% from the first quarter of 2012 and an increase of approximately 4.9% over the same period in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2012 Compared to First Quarter of 2012

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

	Three months ended	
	30 June 2012 (Unaudited) RMB'000	31 March 2012 (Unaudited) RMB'000
Revenue	276,133	236,975
Cost of revenue	<u>(42,458)</u>	<u>(28,275)</u>
Gross profit	233,675	208,700
Other income and gains	11,314	3,989
Selling and marketing expenses	(37,078)	(33,487)
Administrative expenses	(55,829)	(58,911)
Development costs	(50,164)	(45,786)
Other expenses	(14,986)	(1,721)
Net loss on derivative financial instruments	(19,378)	(3,961)
Finance costs	(4,319)	(4,729)
Share of losses of associates	<u>(285)</u>	<u>(373)</u>
Profit before taxation	62,950	63,721
Taxation	<u>(17,964)</u>	<u>(7,848)</u>
Profit for the period	<u>44,986</u>	<u>55,873</u>
Profit for the period attributable to:		
- Owners of the Company	45,032	55,771
- Non-controlling interests	<u>(46)</u>	<u>102</u>
	<u>44,986</u>	<u>55,873</u>

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 30 June 2012 was approximately RMB276.1 million, representing an increase of approximately 16.5% as compared to approximately RMB237.0 million for the three months ended 31 March 2012.

Online game

Our online game revenue for the three months ended 30 June 2012 was approximately RMB201.0 million, representing an increase of approximately 4.9% as compared to approximately RMB191.6 million for the three months ended 31 March 2012.

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

	Three months ended			
	30 June 2012		31 March 2012	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	175,083	87.1	164,025	85.6
Overseas	<u>25,909</u>	<u>12.9</u>	<u>27,556</u>	<u>14.4</u>
	<u>200,992</u>	<u>100.0</u>	<u>191,581</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 June 2012 was approximately RMB175.1 million, representing an increase of approximately 6.7% as compared to approximately RMB164.0 million for the three months ended 31 March 2012.

The online game revenue derived from overseas markets for the three months ended 30 June 2012 was approximately RMB25.9 million, represented a decrease of approximately 6.0% as compared to approximately RMB27.6 million for the three months ended 31 March 2012.

Mobile Internet business

The mobile Internet business revenue for the three months ended 30 June 2012 was approximately RMB75.1 million, representing an increase of approximately 65.5% as compared to approximately RMB45.4 million for the three months ended 31 March 2012. The increase was mainly contributed by (i) the increase of mobile games income; (ii) the continuing contribution of mobile advertising revenue due to the expansion of business networks; and (iii) the increase of mobile platforms revenue due to its increase in the overall popularity.

The following table sets out the breakdown of geographical mobile Internet business revenue of the Group for period indicated below:

	For the three months ended 30 June 2012	<i>% of mobile Internet business revenue</i>
	<i>RMB'000</i>	
PRC	68,978	91.8
Overseas	<u>6,163</u>	<u>8.2</u>
	<u><u>75,141</u></u>	<u><u>100.0</u></u>

The mobile Internet business revenue derived from the PRC and overseas markets for the three months ended 30 June 2012 was approximately RMB69.0 million and approximately RMB6.1 million, respectively.

Cost of revenue

Cost of revenue for the three months ended 30 June 2012 increased by approximately 50.2% to approximately RMB42.5 million as compared to approximately RMB28.3 million for the three months ended 31 March 2012. The increase in cost of revenue was caused by the increase in cooperation fee of mobile games.

The Group re-allocated the resources for the development of the mobile Internet business. The total cost of revenue of mobile Internet business for the three months ended 30 June 2012 and 31 March 2012 were approximately RMB31.6 million and approximately RMB16.1 million, respectively.

Gross profit

Our gross profit for the three months ended 30 June 2012 was approximately RMB233.7 million, representing an increase of approximately 12.0% as compared to approximately RMB208.7 million for the three months ended 31 March 2012.

The gross profit margin for the three months ended 30 June 2012 was approximately 84.6%, which represented a decrease of approximately 3.5% as compared with the three months ended 31 March 2012.

Other income and gains

Other income and gains for the three months ended 30 June 2012 were approximately RMB11.3 million, representing an increase of approximately 183.6% as compared with the three months ended 31 March 2012. The increase in other income and gains was mainly caused by the increase in interest income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2012 were approximately RMB37.1 million, representing an increase of approximately 10.7% as compared with the three months ended 31 March 2012. The increase in the amount of selling and marketing expenses was mainly due to the increase in advertising and promotion activities for Absolute Force and Dungeon Keeper™ Online.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 June 2012, the number of operation and marketing staff in the mobile Internet business was 215, which was increased by approximately 3.9%, as compared with the number of staff as at 31 March 2012. The selling and marketing expenses of mobile Internet business for the three months ended 30 June 2012 and 31 March 2012 were approximately RMB4.7 million and approximately RMB3.5 million, respectively.

Administrative expenses

Administrative expenses for the three months ended 30 June 2012 were approximately RMB55.8, representing a decrease of approximately 5.2% as compared with the three months ended 31 March 2012. The decrease was mainly due to off-set of (i) the increase in rental expenses; and (ii) the decrease in legal and professional fees.

Besides that, the Group re-allocated the resources for the mobile Internet business, integrated application development and other new business divisions. As at 30 June 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 46, which has decreased by approximately 32.4%, as compared with the number of staff as at 31 March 2012. The total administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 30 June 2012 and 31 March 2012 were approximately RMB13.8 million and approximately RMB15.5 million, respectively.

Development costs

Development costs increased by approximately 9.6% to approximately RMB50.2 million for the three months ended 30 June 2012 as compared with the three months ended 31 March 2012. The increase in the amount of development costs was mainly caused by (i) the increase in staff costs for recruitment of experienced staff; and (ii) the increase in co-operation with outside service companies for design and development.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 30 June 2012, the total number of research and development staff in the mobile Internet business and integrated application development was 584, which was maintained at a steady level, as compared with the number of staff as at 31 March 2012. The total development costs of mobile Internet business and integrated application development for the three months ended 30 June 2012 and 31 March 2012 were approximately RMB17.4 million and approximately RMB15.9 million, respectively.

Other expenses

Other expenses for the three months ended 30 June 2012 were approximately RMB15.0 million, which represented an increase of approximately 770.8% as compared with the three months ended 31 March 2012. The increase was mainly caused by (i) donation to The Communist Youth League Central Exhibition to support new media and cultural exchange; and (ii) compensation for termination of a contract and write off of intangible assets because of unsuccessfully development of Transformer Online.

Net loss on derivative financial instruments

Net loss on derivative financial instruments increased by approximately 389.2% to approximately RMB19.4 million for the three months ended 30 June 2012 as compared with the three months ended 31 March 2012, which was mainly due to the increase in the value of the underlying assets of series A preferred shares (the “Series A Preferred Shares”) and series B preferred shares (the “Series B Preferred Shares”) issued by 91 Limited.

Taxation

Taxation for the three months ended 30 June 2012 was approximately RMB18.0 million, which increased by approximately 128.9% as compared with the three months ended 31 March 2012. The increase was mainly due to (i) growth in taxable profit; and (ii) the increase in recognition of withholding tax for proposed interim dividend declared for the six months ended 30 June 2012.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2012 was approximately RMB45.0 million, representing a decrease of approximately RMB10.8 million as compared with approximately RMB55.8 million for the three months ended 31 March 2012.

Second Quarter of 2012 Compared to Second Quarter of 2011

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

	Three months ended	
	30 June 2012 (Unaudited) RMB'000	30 June 2011 (Unaudited) RMB'000
Revenue	276,133	184,304
Cost of revenue	<u>(42,458)</u>	<u>(14,109)</u>
Gross profit	233,675	170,195
Other income and gains	11,314	5,572
Selling and marketing expenses	(37,078)	(34,435)
Administrative expenses	(55,829)	(48,875)
Development costs	(50,164)	(35,025)
Other expenses	(14,986)	(768)
Net loss on derivative financial instruments	(19,378)	—
Finance costs	(4,319)	—
Share of losses of associates	<u>(285)</u>	<u>(77)</u>
Profit before taxation	62,950	56,587
Taxation	<u>(17,964)</u>	<u>(13,617)</u>
Profit for the period	<u>44,986</u>	<u>42,970</u>
Profit for the period attributable to:		
- Owners of the Company	45,032	42,917
- Non-controlling interests	<u>(46)</u>	<u>53</u>
	<u>44,986</u>	<u>42,970</u>

FINANCIAL REVIEW

Revenue

Our revenue for the three months ended 30 June 2012 was approximately RMB276.1 million, representing an increase of approximately 49.8% as compared to approximately RMB184.3 million for the three months ended 30 June 2011.

Online game

Our online game revenue for the three months ended 30 June 2012 was approximately RMB201.0 million, representing an increase of approximately 14.9% as compared to approximately RMB174.9 million for the three months ended 30 June 2011.

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

	Three months ended			
	30 June 2012		30 June 2011	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	175,083	87.1	142,283	81.4
Overseas	25,909	12.9	32,580	18.6
	<u>200,992</u>	<u>100.0</u>	<u>174,863</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 June 2012 was approximately RMB175.1 million, representing an increase of approximately 23.1% as compared to approximately RMB142.3 million for the three months ended 30 June 2011. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from new Chinese expansion packs “Edge of Night” and “Trumpet of Legionaire” of Eudemons Online.

The online game revenue derived from overseas markets for the three months ended 30 June 2012 amounted to approximately RMB25.9 million, representing a decrease of approximately 20.5% as compared with that of approximately RMB32.6 million for the three months ended 30 June 2011.

Mobile Internet business

The mobile Internet business revenue for the three months ended 30 June 2012 was approximately RMB75.1 million, representing an increase of approximately 695.9% as compared to approximately RMB9.4 million for the three months ended 30 June 2011. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to the expansion of business networks; (ii) the increase of mobile platforms revenue due to its increase in its overall popularity; and (iii) the increase in mobile games revenue.

The following table sets out the breakdown of geographical mobile Internet business revenue of the Group for period indicated below:

	For the three months ended 30 June 2012	<i>% of mobile Internet business revenue</i>
	<i>RMB'000</i>	
PRC	68,978	91.8
Overseas	<u>6,163</u>	<u>8.2</u>
	<u><u>75,141</u></u>	<u><u>100.0</u></u>

The mobile Internet business revenue derived from the PRC and overseas markets for the three months ended 30 June 2012 was approximately RMB69.0 million and approximately RMB6.1 million, respectively.

Cost of revenue

Cost of revenue for the three months ended 30 June 2012 increased by approximately 200.9% to approximately RMB42.5 million as compared with that of approximately RMB14.1 million for the three months ended 30 June 2011. The increase was mainly due to (i) the increase in cooperation fee being paid to third parties development on mobile games; 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 30 June 2012 and 30 June 2011 were approximately RMB31.6 million and approximately RMB1.0 million, respectively.

Gross profit

Our gross profit for the three months ended 30 June 2012 was approximately RMB233.7 million, representing an increase of approximately 37.3% as compared to approximately RMB170.2 million for the three months ended 30 June 2011.

However, the gross profit margin for the three months ended 30 June 2012 was approximately 84.6%, which represented a decrease of approximately 7.7% as compared with the three months ended 30 June 2011.

Other income and gains

Other income and gains for the three months ended 30 June 2012 increased by approximately 103.1% to approximately RMB11.3 million as compared with the three months ended 30 June 2011. The increase in other income and gains was mainly caused by the increase of interest income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2012 increased by approximately 7.7% to approximately RMB37.1 million as compared with the three months ended 30 June 2011. The increase in selling and marketing expenses was mainly due to offset of (i) the increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development; (ii) the increase in expenditure of technology service charges of the mobile Internet business; and (iii) the decrease in expenditure of advertising for various online games and the mobile Internet business.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 June 2012, the number of operation and marketing staff in the mobile Internet business was 215, which was increased by approximately 726.9%, as compared with the number of staff as at 30 June 2011. The selling and marketing expenses of mobile Internet business for the three months ended 30 June 2012 and 30 June 2011 were approximately RMB4.7 million and approximately RMB1.4 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 14.2% to approximately RMB55.8 million for the three months ended 30 June 2012 as compared with the three months ended 30 June 2011. The increase in administrative expenses was mainly due to (i) the increase in rental expenses; (ii) the increase in

outsourced repair and maintenance expenses; and (iii) 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 the mobile Internet business, integrated application development and other new business divisions. As at 30 June 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 46, which was increased by approximately 91.7%, as compared with the number of staff as at 30 June 2011. The total administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 30 June 2012 and 30 June 2011 were approximately RMB13.8 million and approximately RMB5.3 million, respectively.

Development costs

Development costs increased by approximately 43.2% to approximately RMB50.2 million for the three months ended 30 June 2012 as compared with the three months ended 30 June 2011. The number of staff in our development team increased to 1,724 as at 30 June 2012 from 1,364 as at 30 June 2011. The increase in the amount of development costs was caused by (i) the increase in share-based payments for the grant of share options and share award as incentives in order to retain certain eligible participants for the contribution of the continuing operation and development of the Group; and (ii) 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 30 June 2012, the total number of research and development staff in the mobile Internet business and integrated application development was 584, which was increased by approximately 117.9%, as compared with the number of staff as at 30 June 2011. The total development costs of mobile Internet business and integrated application development for the three months ended 30 June 2012 and 30 June 2011 were approximately RMB17.4 million and approximately RMB6.1 million, respectively.

Other expenses

Other expenses for the three months ended 30 June 2012 were approximately RMB15.0 million, which represented an increase of approximately 1,851.3% as compared with the three months ended 30 June 2011. The increase was mainly caused by the increase in (i) compensation for termination of a contract and write off of intangible assets because of unsuccessfully development of Transformer Online; and (ii) business tax for inter-group sales.

Taxation

Taxation for the three months ended 30 June 2012 was increased by approximately 31.9% as compared with the three months ended 30 June 2011. The increase as compared with the three months ended 30 June 2011 was mainly due to (i) growth in assessable profit; and (ii) increase in withholding tax for proposed interim dividend declared for the six months ended 30 June 2012.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2012 was approximately RMB45.0 million, representing an increase of approximately RMB2.1 million as compared with approximately RMB42.9 million for the three months ended 30 June 2011.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2012, we had bank deposits, bank balances and cash and pledged deposit balance of approximately RMB1,603.8 million (31 December 2011: RMB1,468.9 million), out of which about RMB184.0 million has been pledged to bank to secure loan (31 December 2011: Nil). The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.12 (31 December 2011: Nil). As at 30 June 2012, total bank loan of the Group amounted to approximately RMB184.6 million was fixed rate loan.

As at 30 June 2012, the Group had net current assets of approximately RMB1,389.4 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 30 June 2012	At 31 March 2012	At 30 June 2011
Research and development	1,724	1,574	1,364
Operation and marketing	717	648	461
Accounting, finance and general administration	<u>379</u>	<u>398</u>	<u>314</u>
Total	<u>2,820</u>	<u>2,620</u>	<u>2,139</u>

As at 30 June 2012, we had a total of 2,820 employees (31 March 2012 and 30 June 2011: 2,620 and 2,139, respectively), 695 of which were game developers of the research and development department, represented approximately 24.6% of the total number of staff.

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

	At 30 June 2012	At 31 March 2012	At 30 June 2011
Research and development	464	326	188
Operation and marketing	215	207	26
Accounting, finance and general administration	<u>46</u>	<u>68</u>	<u>18</u>
Total	<u>725</u>	<u>601</u>	<u>232</u>

The number of employees of integrated application development and other new business divisions as at 30 June 2012 under research and development was 120 (31 March 2012 and 30 June 2011: 111 and 80, respectively).

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

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

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

Development and licensing of existing games

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

During the period under review, the Group has developed and tested new expansion packs to enrich its existing games. The Group has carried out a closed beta testing for a new expansion pack of Eudemons Online called "Legacy of Asgard"* (神域爭霸) in March 2012. The Group has also carried out closed beta testings for the two new Chinese expansion packs of Zero Online called "Version of Pet Function"* (騎寵功能版本) and "Version of the Worms Mission Function Needs"* (蟲族任務功能需求版本) in March and May 2012, respectively.

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

In respect of the self-operated games, the Group has launched the expansion pack "Invasion of Pirates"* (海盜來襲) for Conquer Online in English, French, Spanish, Arabian and traditional Chinese in the first half of 2012. The Group expected the offer of additional in-game items and premium features will 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. The Group has licensed its own in-house developed online games in various countries and regions, including Hong Kong, Malaysia, Macau, Taiwan, Brazil and Vietnam, to enlarge the user base.

Games in the pipeline

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

Starting from 2011, the Group has carried out four closed beta testings for its first 3D MMORPG, Dungeon Keeper™ Online (previously named as World of Dungeon Keeper™), and an open beta has been carried out in April 2012.

Mobile Internet Business

During the period under review, the mobile Internet business has been growing its significance in the business of 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 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 2012, the Group continues to launch self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. As of June 2012, the increase in the total number of users of the 91 Series mobile phone software (including 91 Panda Reader* (91熊貓看書), 91 Panda Desktop* (91熊貓桌面), 91 PC Suite* (91手機助手) and HiMarket* (安卓市場) etc.), one of the advanced mobile phone applications offered in the PRC, had broken its own record.

During the period under review, 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 developing mobile Internet market in the PRC by providing full support to the business development and innovation of mobile Internet applications, contents and services for the domestic and foreign small and medium enterprises and individual developers. The Group has also strengthened the content of mobile platform through cooperation with other mobile Internet enterprises in development.

As of 30 June 2012, 725 employees of the Group engages in positions and tasks relating to the mobile Internet business, representing approximately 25.7% of the overall staff headcount, which represented the Group's determination in further developing in the 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 30 June 2012, the Group's overall staff headcount was 2,820, of which 1,724 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 the second half of 2012, the Group plans to further enhance its game development capabilities and to train talented R&D personnel. Aside from developing new online games to expand its product lines, the Group will continue to update the content for its online games and provide diversified online game versions to extend the life span of its products. As such, it is expected that the Group's revenue base can be maximised.

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

In respect of its mobile Internet business, it is expected that the increasing popularity of smart-phones and 3G network in the PRC, the increasing competitive edges of the Group's mobile Internet products, the extensive 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 considered to have market potential, so as to extend its product lines for retaining current players and attracting attention from more players of various levels.

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. An updated version of Disney Fantasy Online with some new characters has been released in August 2012 and another new feature called "New Roles (Occupation Choice for Player)"* (夢迪新職業) will be added to the game in September 2012. For Eudemons Online, a new expansion pack called "Undead Mage"* (亡靈法師) will also be released in September 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. It is planned that the unlimited closed beta testing and internal pressure testing will be carried out in the third quarter 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 with enriched 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.

* For identification purpose only

Mobile Internet Business

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

The 91 Panda Reading Scheme* (91熊貓看書項目) organized a content editing team in December 2011. Based on the co-operations with traditional publishers and online content platforms, enormous efforts were committed to procure contents from independent authors in order to develop them into a self-own brand. In March 2012, the 91 Panda Reading Scheme* began to co-operate and contract with independent authors after a series of technical problems had been resolved, together with relevant functions and user experience optimized and enhanced. In June, a zone dedicated to the self-owned content “Bamboo Fragrance Pavilion”* (竹香閣) debuted online. Following the commencement of various new lines of business, the number of users of the 91 Panda Reading Scheme* with daily spending increased significantly. At the next stage, the 91 Panda Reading Scheme* will focus on self-owned contents, widen the extent of contracts with authors, and further expand external distribution channels.

The Group is optimistic about the expansion of the mobile Internet business in the PRC. For the future development of the expansion of the mobile Internet business, four subsidiaries of the Company have commenced operations independently since April 2011.

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 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

* For identification purpose only

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.

Expansion of Business Lines

91 Application Center for Children* (91兒童應用中心)

The embedded version for IOS of 91 Application Center for Children, an interactive platform focused on recommended parenting resources, community for making friends and information communications, had been officially released in April 2012 with satisfactory results in the total numbers of visitors and downloaders. The embedded versions for 91 PC Suite and mobile platforms (IOS and Android) will be launched one after another in the second half of the year, and the personalizing of recommended versions will help achieve the expected annual targets.

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 its own game development and operation by launching internal training programs and employing experienced elite game developers, graphic designers and market operators for the continuous enhancement of its product appeal to players.

* *For identification purpose only*

There has been a surge in the number of online game products which resulted in a higher market expectation on quality games. In view of this, the Group intends to cater for the demands of players on storyline setting, graphic style and playing methods of 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")

In 2010, the Group had actively participated in the Project, a major development project for the construction of Haixi District implemented by the PRC government and arranged by the government of the Changle City of Fuzhou in Fujian Province. 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 various buildings such as the Pentagonal Building* (五角大樓) and the Heavenly Building* (天禧樓) has been completed and put in use as the research and development and communication zone and quality development zone of the Group at present. Currently, the core research and development zone for special cases is under construction, and the main building for the research and development of the Group, TQ Building* (天晴樓) (approximately 23,000 sq.m. in area with a total gross floor area of 56,000 sq.m.), is in the final interior design stage, and the construction of other buildings in the core area will be commenced in the second half

* For identification purpose only

of the year. Currently, the construction area of the Group has become the creative industrial demonstration base in Binhai, and has been awarded as “the Key Creative Industrial Park (Base) in Fujian Province” in April 2012 and is also an important landmark building located in Binhai Road, Changle City.

As at 30 June 2012, the Group had capital commitments in relation to the development of the Project of approximately RMB267.3 million, in which the Group had settled approximately RMB159.9 million.

OTHER EVENTS

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

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

INTERIM DIVIDEND

On the date of this announcement, the Board has resolved to declare an interim dividend of HKD0.15 per share for the six months ended 30 June 2012 (six months ended 30 June 2011: HKD0.10 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 11 September 2012. It is expected that the interim dividend will be distributed on or about 14 September 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 11 September 2012 to Thursday, 13 September 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2012, all share transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 10 September 2012.

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

As at 30 June 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through a controlled corporation	266,251,520(L)	51.74%
Liu Dejian <i>(Note 3)</i>	Fujian NetDragon Websoft Co. Ltd (“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 a controlled corporation	266,051,520(L)	51.70%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%
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 a controlled corporation	264,651,520(L)	51.43%
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%

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
Chen Hongzhan (Note 4)	The Company	Beneficial owner and through a controlled corporation	14,285,000(L)	2.78%
Chao Guowei, Charles (Note 5)	The Company	Beneficial owner	997,019(L)	0.19%
Lee Kwan Hung (Note 5)	The Company	Beneficial owner	997,019(L)	0.19%
Liu Sai Keung, Thomas (Note 5)	The Company	Beneficial owner	997,019(L)	0.19%

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 3.71%, 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 6.39% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 51.38% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company awarded 1,600,000 shares and 1,400,000 shares of the Company to Liu Dejian and Liu Luyuan, respectively. On 22 July 2011, the Company granted 284,000 share options to each of Liu Dejian, Liu Luyuan and Zheng Hui.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).
4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.47% of the issued share capital of the Company. Chen Hongzhan had been awarded 1,600,000 shares of the Company on 7 December 2009, which represent 0.31% of the issued share capital of the Company. 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.
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. On 23 April 2012, the Company again granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2012, none of the Directors and chief executives of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30 June 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/preferred 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%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320(L)	15.22%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320(L)	15.22%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095(L)	14.28%
Eagle World International Inc. <i>(Note 3)</i>	The Company	Beneficial owner	32,872,920(L)	6.39%
Richmedia Holdings Limited	The Company	Beneficial owner	26,344,800(L)	5.12%
IDG Investors <i>(Note 4)</i>	91 Limited	Beneficial owner	19,390,250(L) <i>(Note 5)</i>	16.34%
NetDragon (BVI)	91 Limited	Beneficial owner	73,554,750(L) <i>(Note 6)</i>	62.03%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.
2. 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 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.
3. 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.
 4. The IDG Investors is comprised of three limited partnerships, namely 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 12.60%, 2.57% and 1.17%, respectively, in 91 Limited who are deemed to be acting in concert to acquire interests in 91 Limited, and its respective controlling entities. The controlling structure of each of the above partnerships is stated in *Note 2*.
 5. The 19,390,250 shares of 91 Limited held by IDG Investors were preferred shares comprising of 15,384,000 Series A Preferred Shares and 4,006,250 Series B Preferred Shares.
 6. The 73,554,750 shares of 91 Limited held by NetDragon (BVI) comprised of 71,151,000 ordinary shares and 2,403,750 Series B Preferred Shares.

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

Details of the share options outstanding and movement during the six months ended 30 June 2012 are as follows:

Grantee	Date of grant	Exercise Price (HKD)	At 01.01.2012	Number of share options			At 30.06.2012
				Granted	Exercised	Lapsed	
Executive Directors							
Liu Dejian	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	22.07.2011	4.60	284,000	—	—	—	284,000
Liu Luyuan	07.12.2009	4.33	1,400,000	—	—	—	1,400,000
	22.07.2011	4.60	284,000	—	—	—	284,000
Zheng Hui	22.07.2011	4.60	284,000	—	—	—	284,000
Chen Hongzhan	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	22.07.2011	4.60	284,000	—	—	—	284,000
Independent non-executive Directors							
Chao Guowei, Charles	22.07.2011	4.60	400,000	—	—	—	400,000
	23.04.2012	5.74	—	400,000	—	—	400,000
Lee Kwan Hung	22.07.2011	4.60	400,000	—	—	—	400,000
	23.04.2012	5.74	—	400,000	—	—	400,000
Liu Sai Keung, Thomas	22.07.2011	4.60	400,000	—	—	—	400,000
	23.04.2012	5.74	—	400,000	—	—	400,000
Others							
Employees	07.12.2009	4.33	2,200,000	—	—	—	2,200,000
	28.04.2011	4.80	13,201,400	—	—	506,300	12,695,100
	22.07.2011	4.60	1,314,500	—	—	162,000	1,152,500
	23.04.2012	5.74	—	2,034,000	—	2,500	2,031,500
Total			<u>23,651,900</u>	<u>3,234,000</u>	<u>—</u>	<u>670,800</u>	<u>26,215,100</u>

Notes:

1. On 23 April 2012, 3,234,000 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 23 April 2012 (the trading day on the grant of the share options) was HKD5.61.
2. During the period under review, no share options were exercised by any Directors or chief executives of the Company.

SHARE AWARD SCHEME

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

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.

As at 30 June 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.

INTERNAL CONTROLS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company had been in compliance with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the Period except for the following deviation:

Code provision A.6.7 requires that the independent non-executive Directors and the non-executive Directors should attend the general meeting. However, due to other commitment, the independent non-executive Directors, Mr. Chao Guowei, Charles, Mr. Liu Sai Keung, Thomas and the non-executive Director, Mr. Lin Dongliang did not attend the annual general meeting of the Company held on 18 May 2012.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. Specific enquiry has been made to all Directors and all the Directors have confirmed that they had complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2012.

AUDIT COMMITTEE

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

The Group's interim results for the six months ended 30 June 2012 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

For the six months ended 30 June 2012, the Company had repurchased 9,635,500 shares. 9,385,500 shares and 250,000 shares had been cancelled on 3 July 2012 and 31 July 2012, respectively.

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

Hong Kong, 24 August 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.