

# 2012

INTERIM REPORT



NETDRAGON WEBSOFT INC.  
網龍網絡有限公司

(Incorporated in the Cayman Islands with limited liability) Stock Code : 777

# CONTENTS

|   |    |
|---|----|
| MANAGEMENT DISCUSSION AND ANALYSIS .....                              | 2  |
| OTHER INFORMATION .....   | 32 |
| REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ..... | 39 |
| CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....        | 40 |
| CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....          | 41 |
| CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....           | 43 |
| CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS .....                  | 44 |
| NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS .....        | 45 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) OPERATION INFORMATION

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

|            |                 | For the three months ended |                     |                      |                 |
|------------|-----------------|----------------------------|---------------------|----------------------|-----------------|
|            | 30 June<br>2012 | 31 March<br>2012           | 31 December<br>2011 | 30 September<br>2011 | 30 June<br>2011 |
| <b>PCU</b> | <b>582,000</b>  | 600,000                    | 612,000             | 569,000              | 643,000         |
| <b>ACU</b> | <b>307,000</b>  | 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) 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:

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

### 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 |                                   | 2011    |                                   |
|-----------------|----------------------------------|-----------------------------------|---------|-----------------------------------|
|                 | 2012                             | % of<br>online<br>game<br>revenue | RMB'000 | % of<br>online<br>game<br>revenue |
|                 | RMB'000                          |                                   | RMB'000 |                                   |
| <b>PRC</b>      | <b>339,108</b>                   | <b>86.4</b>                       | 260,258 | 80.0                              |
| <b>Overseas</b> | <b>53,465</b>                    | <b>13.6</b>                       | 65,261  | 20.0                              |
|                 | <b>392,573</b>                   | <b>100.0</b>                      | 325,519 | 100.0                             |

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

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

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

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 revenue 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

### **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

## (3) FINANCIAL REVIEW

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### 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 |                                   |
|                 | RMB'000            | % of<br>online<br>game<br>revenue | RMB'000       | % of<br>online<br>game<br>revenue |
| <b>PRC</b>      | <b>175,083</b>     | <b>87.1</b>                       | 164,025       | 85.6                              |
| <b>Overseas</b> | <b>25,909</b>      | <b>12.9</b>                       | 27,556        | 14.4                              |
|                 | <b>200,992</b>     | <b>100.0</b>                      | 191,581       | 100.0                             |

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 game revenue; (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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### Revenue (Cont'd)

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### **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 million, 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, 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### **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 unsuccessful 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### 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:

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### 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 2011 |                                   |
|-----------------|--------------------|-----------------------------------|--------------|-----------------------------------|
|                 | 30 June 2012       | % of<br>online<br>game<br>revenue | RMB'000      | % of<br>online<br>game<br>revenue |
| <b>PRC</b>      | <b>175,083</b>     | <b>87.1</b>                       | 142,283      | 81.4                              |
| <b>Overseas</b> | <b>25,909</b>      | <b>12.9</b>                       | 32,580       | 18.6                              |
|                 | <b>200,992</b>     | <b>100.0</b>                      | 174,863      | 100.0                             |

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### *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 game revenue.

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

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

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### **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, 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW (Cont'd)

### **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 awards 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 unsuccessful 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (4) BUSINESS REVIEW

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

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

### **Development and licensing of existing games**

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

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.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (4) BUSINESS REVIEW (Cont'd)

### Mobile Internet Business

During the period under review, the mobile Internet business 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 熊猫看书), 91 Panda Desktop\* (91 熊猫桌面), 91 PC Suite\* (91 手机助手) and HiMarket\* (安卓市场) 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 农场) and 91 Pasture\* (91 牧场) as well as Hengha Warring States\* (哼哈三国) and Warring States\* (战国天下). These games also provide numerous interactive features for players and their friends, enhancing the loyalty of the game players significantly.

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.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (4) BUSINESS REVIEW (Cont'd)

### Corporate Milestones and Awards in First Half of 2012

#### Year 2012 Corporate Milestones/Recognitions

#### Product Milestones/Awards

January

- **Mobile Internet Business**

91 Farm\*「91農場」was awarded the ("Top 10 Most Popular Chinese Mobile Phone Game Award")\*「中國十大最受歡迎民族手機遊戲獎」by the ("Publishers Association of China")\*「中國出版協會」

www.hiapk.com「安卓網」was awarded the ("2011 Fujian Most Popular Website Microblogging Award")\*「2011福建最熱門網站微博獎」by www.sina.com「新浪網」

April

- Haixi NetDragon Creativity Industrial Park\*「海西網龍創意產業園」was honoured as the ("Fujian Key Creativity Industrial Park-Base")\*「福建省創意產業重點園區(基地)」by the Fujian Provincial People's Government
- TQ Digital was honoured as ("Fujian Key Creativity Enterprise")\*「福建省重點創意企業」by the ("Steering Committee Office for Fujian Creativity Industry Development")\*「福建省創意產業發展領導小組辦公室」

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (4) BUSINESS REVIEW (Cont'd)

### Corporate Milestones and Awards in First Half of 2012 (Cont'd)

| Year 2012 | Corporate Milestones/Recognitions   | Product Milestones/Awards   |
|-----------|---|---|
| May       | <ul style="list-style-type: none"><li>The digital publication and R&amp;D team of the mobile Internet business department of Fujian NetDragon Websoft Co. Ltd. ("NetDragon (Fujian)") was awarded the ("First Fuzhou Youth May Fourth Medal Collective Award")* 「首屆福州青年五四獎章集體獎」 by the ("Communist Youth League of China Fuzhou Municipal Committee Fuzhou Youth Association")* 「共青團福州市委福州市青年聯合會」</li><li>NetDragon (Fujian) was named ("Internet Society of Fujian Standing Director Unit – Third Session")* 「福建省互聯網協會(第三屆)常務理事單位」 by the ("Internet Society of Fujian")* 「福建省互聯網協會」</li><li>NetDragon (Fujian) was named ("Culture and Entertainment Association of Fujian Province Standing Deputy Chairman Unit – First Session")* 「首屆福建省文化企業協會常務副會長單位」 by the Culture and Entertainment Association of Fujian Province 「福建省文化企業協會」</li><li>Fujian Bo Rui Websoft Technology Ltd. ("Fujian Bo Rui") was named ("Culture and Entertainment Association of Fujian Province Director Unit – First Session")* 「首屆福建省文化企業協會理事單位」 by the Culture and Entertainment Association of Fujian Province 「福建省文化企業協會」</li></ul> | <ul style="list-style-type: none"><li><b>Other Business</b><br/>The 91eHR business execution software* 「91eHR企業執行軟件」 of ("E-Yong Websoft Inc.")* 「廈門易用軟件技術有限公司」 was awarded the ("2012 China Management Software Outstanding Product Award")* 「2012中國管理軟件優秀產品獎」 by ("China Software Industry Association's China Computer Press")* 「中國軟件行業協會中國電腦報社」</li></ul> |
| June      |   | <ul style="list-style-type: none"><li><b>Mobile Internet Business</b><br/>91 PC Suite* 「91手機助手」 was awarded the ("Best Application Platform Award")* 「最佳應用平台獎」 by iiMedia Research Group 「艾媒諮詢集團」<br/><br/>Android SMS* 「安卓短信」 was awarded the ("Best Growing Product Award of the Year")* 「年度最佳成長產品獎」 by iiMedia Research Group 「艾媒諮詢集團」</li></ul>           |

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (5) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2012, the Group 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.

Except for the pledged bank deposit as shown in the condensed consolidated statement of financial position, no other assets were pledged as at 30 June 2012 and 31 December 2011.

## (6) FOREIGN CURRENCY RISKS

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

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

## (7) CREDIT RISKS

As at 30 June 2012, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## (8) STAFF INFORMATION

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

|  | <b>At 30 June<br/>2012</b> | At 31 March<br>2012 | At 30 June<br>2011 |
|--|----------------------------|---------------------|--------------------|
| Research and development                       | <b>1,724</b>               | 1,574               | 1,364              |
| Operation and marketing                        | <b>717</b>                 | 648                 | 461                |
| Accounting, finance and general administration | <b>379</b>                 | 398                 | 314                |
| Total  | <b>2,820</b>               | 2,620               | 2,139              |

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:

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

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).

# MANAGEMENT DISCUSSION AND ANALYSIS

## (9) PERFORMANCE MANAGEMENT AND REMUNERATION PACKAGE

In respect of performance management, the Group adhered to the business objective-oriented approach by recurrently using the Plan-Do-Check-Act (PDCA) cycle in the first half of 2012. Based on the objective management system established last year, we continued optimization of the evaluation indicators and standards in the entire group and moved forward disintegration by layers up from the corporate management down to divisions/department/teams and individuals, laying the foundation for all staff evaluation, project evaluation and year-end evaluation for 2012. In the meantime, the development of 91 Objective Exposure\* (91 曬目標) system (a system for publicly "exposing" the yearly objectives and evaluation criteria of each department via the Group's 91U communication platform) was continued to ensure that each department's objectives were fair, just and open so as to facilitate the achievement of the Group's operating and management objectives more efficiently.

In respect of remuneration package, the Group continued to improve its existing remuneration system in a bid to improve the competitiveness of the Group to maintain quality staff. In the first half of 2012, the Company granted options to the Directors and employees of the Group. Moreover, the Group prepared and deployed the Remuneration Plan for In-Charges of Tier 1 Departments of Non-Project Based Evaluation Functions and Personnel at Controller grade and Above (Trial)\* (非項目考核職能類一級部門負責人與總監級別以上人員薪酬實施方案(試行)). It also advanced the finalisation and implementation of remuneration proposals/restructuring plans for six departments, such as programme R&D, quality assurance and engineering development, guaranteeing the attraction and retention of the core personnel of the Company to some extent.

## (10) STAFF TRAINING

### **Introduction to NetDragon University**

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

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (10) STAFF TRAINING (Cont'd)

### Results for the first half of 2012

In respect of application of advanced management, a new round of the Talent Nurture Programme\* (育龍計劃) was kicked off. Various training programmes of over 1,000 training hours were conducted with over 100 staff attended. The programme took a new approach with higher level of objectives focusing on the new trends of the Company's 3-5 years strategic plans and development. Based on the calibre required by the Company of the management personnel under the new business landscape, the programme encompasses a core management training plan that utilises a wide array of training methods in order to strengthen the awareness of operating management and organisational management with the objective of building stronger leadership and influential power. In the area of technical training, with the technical training programmes and tutors we used in 2011 as base resources, 46 sessions of technical training were taught by part-time tutors with near 1,000 attendees. Such training facilitated transfer of technical experience among peers and fostered an atmosphere of openness and sharing among different departments. Team spirit was also one of our focuses. In-depth adventure training activities were customised for different departments to bond and stretch teams so that our team members would have greater confidence in taking challenges ahead. In the meantime, a group of catalysers chosen from our staff members will be groomed, who will help promote our Fundamental Team Building Programme\* (基礎團隊建設課程). Those catalysers coming from different departments will disseminate what they have learned from those activities and make contribution to team bonding in their own departments, thereby ultimately helping the departments continuously to do well the team building works.

Development of the first stage E-learning platform was completed. This new E-learning platform will promote digitalisation of training, help support technical development, develop four quality E-learning courses and foster a self-initiated learning atmosphere in the Group.

### Expected results for the second half of 2012

In the second half of 2012, the Intermediate Talent Nurture Programme\* (飛龍計劃) and Basic Talent Nurture Programme\* (潛龍計劃) under the new round of Talent Nurture Programme\* (育龍計劃) will be launched. They will further enhance the leadership capabilities of the middle and junior management to groom outstanding managers who possess organisational management sense as successors through a series of systematic managerial skill training and education. The Product Key Developers Lend a Hand Programme\* (產品主創幫幫忙) will kick start to encourage more key developers to create high value products for the Group. Our technical programme utilised the teaching materials and tutors we had in 2011 to facilitate the roll out of our corporate level technical quality course and promote a desirable technological know-how sharing atmosphere. The Buddies Programme\* (兄弟連) tailor-made for our core project teams will continue with a view to enhancing in-depth sharing and cooperation between project teams and building a solid foundation for seamless collaboration in the future. The platform for our second stage E-learning platform will continue to develop and improve in a bid to motivate online learning and its effectiveness and enhance training efficiency.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (1.1) CORPORATE CULTURE

The DNA of the Group's corporate culture comprises of "happiness, learning, innovation and sincerity". In the face of new development opportunities, and based on the two principles of "Human Resource Development" and "Provide Happy Experience to Customers", the Group creates a "wonderland" full of joy to be shared by our staff, customers and partners by innovation and exploration.



"Happiness, learning, innovation and sincerity" are DNA components of the Group's corporate culture and cultural DNA of everyone in the Group.

### **Happiness**

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

### **Learning**

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## (11) CORPORATE CULTURE (Cont'd)

### **Innovation**

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

### **Sincerity**

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

## (12) PROSPECTS AND OUTLOOK

Looking forward to 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.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (12) PROSPECTS AND OUTLOOK (Cont'd)

### **Other Online Games**

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

#### *icombo\* (都市快打)*

icombo (previously named as Cross Gate\* (時空之門)) was the first 2D horizontal edition combat online game of the Group. Two closed beta testings of icombo were completed in 2010. 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

# MANAGEMENT DISCUSSION AND ANALYSIS

## (12) PROSPECTS AND OUTLOOK (Cont'd)

### Mobile Internet Business

The Group will further develop mobile Internet products, including smart-phone software applications and games for mobile phones. By launching updated versions for existing products on an ongoing basis, the Group can offer users with more user-friendly product experience and cater 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\* (91 熊貓看書項目) 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\* (91 熊貓看書項目) with daily spending increased significantly. At the next stage, the 91 Panda Reading Scheme\* (91 熊貓看書項目) 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 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 the 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.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (12) PROSPECTS AND OUTLOOK (Cont'd)

### 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\* (91 兒童應用中心), 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\* (91 手機助手) 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.

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 and buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC in 2010.

\* For identifications purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (12) PROSPECTS AND OUTLOOK (Cont'd)

### Project in the Haixi Animation Creativity City (the "Project") (Cont'd)



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 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"\* (福建省創意產業重點園區(基地)) 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.



\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (12) PROSPECTS AND OUTLOOK (Cont'd)

### **Other Events**

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

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

## (13) INTERIM DIVIDEND

On 24 August 2012, 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.

## (14) 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.

\* *For identification purpose only*

## OTHER INFORMATION

### 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:

| <b>Name of Director</b>               | <b>Name of company</b>  | <b>Capacity and nature of interests</b>               | <b>Number of shares and underlying shares held or amount of registered capital contributed</b><br><i>(Note 1)</i> | <b>Approximate percentage of shareholding</b> |
|---------------------------------------|---|---|---|---|
| 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>            | 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%                                       |
| Chen Hongzhan <i>(Note 4)</i>         | The Company   | Beneficial owner and through a controlled corporation | 14,285,000(L)   | 2.78%   |
| Chao Guowei, Charles <i>(Note 5)</i>  | The Company   | Beneficial owner                                      | 997,019(L)  | 0.19%   |
| Lee Kwan Hung <i>(Note 5)</i>         | The Company   | Beneficial owner                                      | 997,019(L)  | 0.19%   |
| Liu Sai Keung, Thomas <i>(Note 5)</i> | The Company   | Beneficial owner                                      | 997,019(L)  | 0.19%   |

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

Notes:

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.40% of the issued share capital of DJM Holding Ltd., which in turn is interested in 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 granted 400,000 share options again 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.

## OTHER INFORMATION

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

So far as is known to the Directors, as at 30 June 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:

| <b>Name</b>                                    | <b>Name of Group member</b> | <b>Capacity and nature of interests</b> | <b>Number of ordinary shares/<br/>preferred shares held or amount of registered capital contributed</b><br><i>(Note 1)</i> | <b>Approximate percentage of shareholding</b> |
|--|-----------------------------|---|--|---|
| 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)<br><i>(Note 5)</i>   | 16.34%  |
| NetDragon (BVI)                                | 91 Limited                  | Beneficial owner                        | 73,554,750(L)<br><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.

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

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.

### 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. Save as disclosed, there was no purchase, sale or redemption by the Company, or any of its subsidiaries of its securities during the six months ended 30 June 2012.

# OTHER INFORMATION

## SHARE OPTION SCHEME

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

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

| Grantee                                    | Date of grant | Exercise Price<br>(HKD) | As at<br>01.01.2012 | Number of share options |           |                | As at<br>30.06.2012 |
|--|---------------|-------------------------|---------------------|-------------------------|-----------|----------------|---------------------|
|  |               |                         |                     | Granted                 | Exercised | Lapsed         |                     |
| <b>Executive Directors</b>                 |               |                         |                     |                         |           |                |                     |
| 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             |
| <b>Independent non-executive Directors</b> |               |                         |                     |                         |           |                |                     |
| 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             |
| <b>Others</b>                              |               |                         |                     |                         |           |                |                     |
| 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           |
| <b>Total</b>                               |               |                         | <u>23,651,900</u>   | <u>3,234,000</u>        | <u>-</u>  | <u>670,800</u> | <u>26,215,100</u>   |

Notes:

- 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.
- 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 report.

# OTHER INFORMATION

## 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.

## 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.

## 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.

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

Hong Kong, 24 August 2012

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Deloitte.**  
德勤

## **TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT INC.**

(incorporated in Cayman Islands with limited liability)

### Introduction

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Inc. (the "Company") and its subsidiaries set out on pages 40 to 62, which comprises the condensed consolidated statement of financial position as of 30 June 2012, and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

#### **Deloitte Touche Tohmatsu**

Certified Public Accountants

Hong Kong

24 August 2012

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

|   | NOTES | 30 June<br>2012<br>(Unaudited)<br>RMB'000 | 31 December<br>2011<br>(Audited)<br>RMB'000 |
|---|-------|---|---|
| <b>Non-current assets</b>                                     |       |   |   |
| 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  |
|   |       | <b>404,642</b>                            | <b>340,833</b>                              |
| <b>Current assets</b>   |       |   |   |
| 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                                   |
|   |       | <b>1,754,553</b>                          | <b>1,555,987</b>                            |
| <b>Current liabilities</b>                                    |       |   |   |
| 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  |       | 40,127                                    | 42,849                                      |
|   |       | <b>365,133</b>                            | <b>226,319</b>                              |
| <b>Net current assets</b>                                     |       | <b>1,389,420</b>                          | <b>1,329,668</b>                            |
| <b>Total assets less current liabilities</b>                  |       | <b>1,794,062</b>                          | <b>1,670,501</b>                            |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

|  | NOTE | <b>30 June<br/>2012<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2011<br>(Audited)<br>RMB'000 |
|--|------|---|---|
| <b>Non-current liabilities</b>               |      |   |   |
| Redeemable convertible preferred shares      | 20   | <b>170,034</b>                                      | 131,675                                     |
| Conversion option derivative liability       | 20   | <b>62,587</b>                                       | 39,932                                      |
|  |      | <b>232,621</b>                                      | 171,607                                     |
| <b>Net assets</b>                            |      |   |   |
|  |      | <b>1,561,441</b>                                    | 1,498,894                                   |
| <b>Capital and reserves</b>                  |      |   |   |
| Share capital                                |      | <b>38,226</b>                                       | 38,226                                      |
| Share premium and reserves                   |      | <b>1,517,820</b>                                    | 1,461,126                                   |
| Equity attributable to owners of the Company |      | <b>1,556,046</b>                                    | 1,499,352                                   |
| Non-controlling interests                    |      | <b>5,395</b>  | (458)                                       |
|  |      | <b>1,561,441</b>                                    | 1,498,894                                   |

The condensed consolidated financial statements on pages 40 to 62 were approved and authorised for issue by the Board of Directors on 24 August 2012 and are signed on its behalf by:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

|  | Attributable to owners of the Company |               |                            |               |                 |                    |                  |                     |                        |   |                     |                  |           | Non-controlling interests | Total equity |
|--|---------------------------------------|---------------|----------------------------|---------------|-----------------|--------------------|------------------|---------------------|------------------------|---|---------------------|------------------|-----------|---------------------------|--------------|
|  | 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     |                           |              |
|  | RMB'000                               | RMB'000       | RMB'000                    | RMB'000       | RMB'000         | RMB'000            | RMB'000          | RMB'000             | RMB'000                | RMB'000                                   | RMB'000             | RMB'000          | RMB'000   | RMB'000                   | RMB'000      |
| <b>At 1 January 2011</b>   | 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)         | -         | -                         | -            |
| <b>At 30 June 2011 (unaudited)</b>   | 39,264                                | 1,157,364     | 1,963                      | -             | 9,946           | 121,339            | 43,957           | 673                 | (8,494)                | 12,593                                    | (57,210)            | 201,344          | 1,522,739 | (427)                     | 1,522,312    |
| <b>At 1 January 2012</b>   | 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)         | -         | -                         | -            |
| <b>At 30 June 2012 (unaudited)</b>   | 38,226                                | 1,113,005     | 3,001                      | 2,209         | 10,045          | 140,883            | 62,927           | 673                 | (7,552)                | 24,836                                    | (58,043)            | 225,836          | 1,556,046 | 5,395                     | 1,561,441    |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

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

# 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 Hong Kong Institute of Certified Public Accountants (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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 4. REVENUE, OTHER INCOME AND GAINS

### Revenue

Online game revenue  
Mobile Internet business revenue

### Other income and gains

Business tax refunded  
Gain on fair value changes of investment property  
Government grants  
Interest income  
Net gain on held for trading investments  
Rental income, net of negligible outgoing expenses  
Others

### Six months ended 30 June

| <b>2012</b><br><b>(Unaudited)</b><br><b>RMB'000</b> | 2011<br>(Unaudited)<br>RMB'000 |
|---|--------------------------------|
| <b>392,573</b>                                      | 325,519                        |
| <b>120,535</b>                                      | 15,540                         |
| <b>513,108</b>                                      | 341,059                        |
| <b>1,080</b>  | —                              |
| <b>—</b>  | 1,597                          |
| <b>359</b>  | 4,371                          |
| <b>12,451</b>                                       | 7,319                          |
| <b>—</b>  | 290                            |
| <b>201</b>  | 154                            |
| <b>1,212</b>  | 1,753                          |
| <b>15,303</b>                                       | 15,484                         |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 5. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2011

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

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:

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 6. TAXATION

The charge comprises:

Hong Kong Profits Tax  
 The People's Republic of China (the "PRC")  
     Enterprise Income Tax ("EIT")  
 Taxation in other jurisdictions

### Six months ended 30 June

| <b>2012</b><br><b>(Unaudited)</b><br><b>RMB'000</b> | 2011<br>(Unaudited)<br>RMB'000 |
|---|--------------------------------|
| <b>473</b>  | 3,722                          |
| <b>25,239</b>                                       | 12,915                         |
| <b>100</b>  | 61                             |
| <b>25,812</b>                                       | 16,698                         |

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 7. PROFIT FOR THE PERIOD

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

## 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 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:

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

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.

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 approximately RMB7,245,000 (2011: RMB2,715,000) in office and computer equipment and approximately 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 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

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

## 13. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 13. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Cont'd)

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.

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

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.

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 20. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

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:

|  | <b>Liability component<br/>RMB '000</b> | <b>Conversion option and other derivatives<br/>RMB '000</b> |
|--|---|---|
| At 31 December 2011 and 1 January 2012 | <b>131,675</b>                          | <b>39,932</b>   |
| Exchange realignment                   | <b>672</b>                              | <b>180</b>  |
| Converted from promissory notes        | <b>29,262</b>                           | <b>2,234</b>  |
| Interest charge                        | <b>8,425</b>                            | <b>—</b>  |
| Loss arising on changes of fair value  | <b>—</b>                                | <b>20,241</b>   |
|  | <b>170,034</b>                          | <b>62,587</b>   |
| At 30 June 2012                        | <b>170,034</b>                          | <b>62,587</b>   |

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.

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 20. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

### Series B redeemable convertible preferred shares

|                             | 30 June<br>2012 | 17 February<br>2012 | 31 December<br>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(s) ("Eligible Participant(s)") as defined in the Scheme with the opportunity to acquire interests in the Company and to encourage the Eligible Participant(s) to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

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<br>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                        |
|               |                               |                               | 3,231,500                      |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 21. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

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).

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 21. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

### (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.

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 WACC 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 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.

### Name of/and relationship with related parties

| Name of related parties  | Relationship   |
|--|--|
| Fuzhou Yuangzhanhua 851<br>Bio-Engineering Research Inc.<br>("Fuzhou 851") | DJM Holding Ltd., the immediate holding company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, together have 100% equity interest in this entity |
| 福州天亮網絡技術有限公司<br>("Fuzhou Tianliang")                                       | Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, acting under the instruction of controlling shareholders of the Company  |

### 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 | 17    | 17    |

### Six months ended 30 June

| 2012<br>(Unaudited)<br>RMB'000 | 2011<br>(Unaudited)<br>RMB'000 |
|--------------------------------|--------------------------------|
| 2,504                          | 1,272                          |
| 5,005                          | 3,000                          |
| 7,910                          | 5,879                          |
| 1,166                          | 1,260                          |
| 17                             | 17                             |

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 22. RELATED PARTY TRANSACTIONS (Cont'd)

### Compensation of key management personnel

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

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

The remuneration of Directors and other key executive 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:

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 24. EVENTS 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:

| <b>Date of grant</b> | <b>Vesting period</b>     | <b>Exercisable period</b> | <b>Number of share options granted</b> |
|----------------------|---------------------------|---------------------------|--|
| 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 | 220,575                                |
|                      |                           |                           | <hr/>                                  |
|                      |                           |                           | 735,250                                |
|                      |                           |                           | <hr/> <hr/>                            |

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.