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**NetDragon Websoft Inc.**

**網龍網絡有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 777)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2013. The interim results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the “Auditor”) of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

## RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2013 together with the comparative figures in 2012 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	NOTES	RMB'000	RMB'000
<b>Revenue</b>	4	<b>782,841</b>	513,108
Cost of revenue		<u>(87,292)</u>	<u>(70,733)</u>
Gross profit		<b>695,549</b>	442,375
Other income and gains	4	<b>22,403</b>	15,167
Selling and marketing expenses		<b>(74,619)</b>	(70,565)
Administrative expenses		<b>(187,438)</b>	(113,181)
Development costs		<b>(109,948)</b>	(95,950)
Other expenses		<b>(13,776)</b>	(16,707)
Share of losses of associates		<b>(705)</b>	(658)
Share of profit of a joint venture		<b>918</b>	—
<b>Operating profit</b>		<b>332,384</b>	160,481
Interest income on pledged bank deposit		<b>3,821</b>	—
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares		<b>3,030</b>	(1,423)
Net gain (loss) on derivative financial instruments		<b>30,345</b>	(23,339)
Finance costs		<u>(14,232)</u>	<u>(9,048)</u>
<b>Profit before taxation</b>		<b>355,348</b>	126,671
Taxation	6	<u>(84,678)</u>	<u>(25,812)</u>
<b>Profit for the period</b>	7	<b>270,670</b>	100,859
Other comprehensive (expense) income: Item that may be reclassified subsequently to profit or loss: Exchange differences arising on translation of foreign operations		<u>(625)</u>	<u>72</u>
Total comprehensive income for the period		<u><b>270,045</b></u>	<u>100,931</u>

		<b>Six months ended 30 June</b>	
		<b>2013</b>	2012
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>NOTES</i>	<b>RMB'000</b>	<b>RMB'000</b>
Profit for the period attributable to:			
- Owners of the Company		<b>236,401</b>	100,803
- Non-controlling interests		<u><b>34,269</b></u>	<u>56</u>
		<u><b>270,670</b></u>	<u>100,859</u>
Total comprehensive income attributable to:			
- Owners of the Company		<b>235,776</b>	100,875
- Non-controlling interests		<u><b>34,269</b></u>	<u>56</u>
		<u><b>270,045</b></u>	<u>100,931</u>
		<i>RMB cents</i>	<i>RMB cents</i>
<b>Earnings per share</b>	9		
- Basic		<b>46.84</b>	19.65
- Diluted		<u><b>41.12</b></u>	<u>19.61</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2013**

		<b>30 June 2013</b>	31 December 2012
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>423,296</b>	345,415
Prepaid lease payments	10	<b>185,989</b>	139,678
Investment property	10	<b>15,931</b>	16,217
Intangible assets		<b>1,769</b>	2,626
Interests in associates		<b>1,926</b>	11,793
Interest in a joint venture		<b>18,933</b>	18,015
Available-for-sale investments		<b>5,000</b>	5,000
Loan receivables		<b>9,652</b>	9,969
Goodwill		<b>12,534</b>	12,534
Deferred tax assets		<b>4,436</b>	1,586
		<u><b>679,466</b></u>	<u>562,833</u>
<b>Current assets</b>			
Prepaid lease payments		<b>2,902</b>	2,902
Loan receivables		<b>2,590</b>	3,143
Trade receivables	11	<b>84,516</b>	61,427
Other receivables, prepayments and deposits		<b>107,779</b>	72,101
Held for trading investments		<b>—</b>	4,939
Amounts due from related companies		<b>3,598</b>	3,637
Amount due from a joint venture		<b>1,288</b>	3,060
Pledged bank deposit	13	<b>—</b>	194,405
Bank deposits		<b>425,713</b>	394,081
Bank balances and cash		<b>1,409,797</b>	1,142,825
		<u><b>2,038,183</b></u>	<u>1,882,520</u>

		<b>30 June 2013</b>	31 December 2012
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current liabilities</b>			
Trade and other payables	12	<b>298,364</b>	222,137
Deferred income		<b>27,960</b>	24,778
Amounts due to related companies		<b>525</b>	121
Amount due to an associate		—	5,600
Secured bank borrowing	13	—	183,595
Other financial liability		—	10,679
Income tax payable		<b>74,693</b>	66,355
		<b><u>401,542</u></b>	<u>513,265</u>
<b>Net current assets</b>		<b><u>1,636,641</u></b>	<u>1,369,255</u>
<b>Total assets less current liabilities</b>		<b><u>2,316,107</u></b>	<u>1,932,088</u>
<b>Non-current liabilities</b>			
Redeemable convertible preferred shares	14	—	195,115
Conversion option derivative liability	14	—	314,829
Deferred tax liabilities		<b>17,959</b>	6,141
		<b><u>17,959</u></b>	<u>516,085</u>
<b>Net assets</b>		<b><u>2,298,148</u></b>	<u>1,416,003</u>
<b>Capital and reserves</b>			
Share capital		<b>37,761</b>	37,532
Share premium and reserves		<b>1,942,066</b>	1,356,317
Equity attributable to owners of the Company		<b>1,979,827</b>	1,393,849
Non-controlling interests		<b>318,321</b>	22,154
		<b><u>2,298,148</u></b>	<u>1,416,003</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Attributable to owners of the Company														
	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	38,226	1,113,005	3,001	2,209	9,946	140,883	50,062	673	(7,552)	19,054	(58,115)	187,960	1,499,352	(458)	1,498,894
Profit for the period	—	—	—	—	—	—	—	—	—	—	—	100,803	100,803	56	100,859
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	72	—	72	—	72
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	72	100,803	100,875	56	100,931
Issue of shares by a subsidiary	—	—	—	—	99	—	—	—	—	—	—	—	99	1	100
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	5,782	—	—	5,782	—	5,782
Recognition of equity-settled share-based payments granted by a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	5,664	5,664
Partial disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	132	132
Final dividend for 2011 paid	—	—	—	—	—	—	(50,062)	—	—	—	—	—	(50,062)	—	(50,062)
Interim dividend for 2012	—	—	—	—	—	—	62,927	—	—	—	—	(62,927)	—	—	—
At 30 June 2012 (unaudited)	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
At 1 January 2013	37,532	1,069,844	3,717	2,209	10,045	172,895	81,947	673	(7,225)	30,986	(58,179)	49,405	1,393,849	22,154	1,416,003
Profit for the period	—	—	—	—	—	—	—	—	—	—	—	236,401	236,401	34,269	270,670
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(625)	—	(625)	—	(625)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	—	(625)	236,401	235,776	34,269	270,045
Shares issued upon exercise of share options	229	20,284	—	—	—	—	—	—	—	(6,738)	—	—	13,775	—	13,775
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	10,504	—	—	10,504	—	10,504
Recognition of equity-settled share-based payments granted by subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	69,294	69,294
Conversion of redeemable convertible preferred shares	—	—	—	408,261	—	—	—	—	—	—	—	—	408,261	188,614	596,875
Contributions from non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	3,990	3,990
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,445	(2,846)	—	1,401	—	—	—
Final dividend for 2012 paid	—	—	—	—	—	—	(81,947)	—	—	—	—	(391)	(82,338)	—	(82,338)
Interim dividend for 2013	—	—	—	—	—	—	81,090	—	—	—	—	(81,090)	—	—	—
At 30 June 2013 (unaudited)	37,761	1,090,128	3,717	410,470	10,045	172,895	81,090	673	(5,780)	31,906	(58,804)	205,726	1,979,827	318,321	2,298,148

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

	<b>Six months ended 30 June</b>	
	<b>2013</b>	<b>2012</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>391,966</u></b>	<b><u>71,335</u></b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(101,945)	(43,840)
Purchase of prepaid lease payments	(58,800)	(36,851)
Proceeds on disposal of prepaid lease payments	11,760	—
Proceeds on return of capital from interests in associates	5,600	—
Placement of bank deposits	(226,050)	(70,000)
Placement of pledged bank deposit	—	(183,967)
Withdrawal of pledged bank deposit	192,367	—
Withdrawal of bank deposits	192,678	10,000
Other investing cash flows	(478)	8,720
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b><u>15,132</u></b>	<b><u>(315,938)</u></b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable convertible preferred shares	109,888	—
Proceeds from shares issued upon exercise of share options	13,775	—
Dividends paid	(82,338)	(50,062)
New bank borrowing raised	—	184,580
Repayment of bank borrowing	(179,660)	—
Repayment of amount due to an associate	(5,600)	—
Other financing activities	4,848	294
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b><u>(139,087)</u></b>	<b><u>134,812</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>268,011</b>	<b>(109,791)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>1,142,825</b>	<b>1,428,928</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b><u>(1,039)</u></b>	<b><u>691</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<b><u><u>1,409,797</u></u></b>	<b><u><u>1,319,828</u></u></b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 24 June 2008. Its ultimate controlling shareholders are Messrs. Liu Dejian, Liu Luyuan and Zheng Hui (the “Ultimate Controlling Shareholders”). The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 2209, 22nd Floor, Shun Tak Centre, West Tower, 200 Connaught Road Central, Hong Kong.

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

The condensed consolidated financial 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 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

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



The impact of application of these standards is set out below.

### ***HKFRS 11 Joint Arrangement***

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures, and the guidance contained in a related Interpretation, HK (SIC) - Int 13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements - joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 had three types of joint arrangements - jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

The Directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of HKFRS 11. The Directors concluded that the Group's 51% equity interest in Jiangsu BoDe Websoft Technology Ltd. ("Jiangsu BoDe"), which was classified as a jointly controlled entity under HKAS 31 and was accounted for using the equity method, should be classified as a joint venture under HKFRS 11. In view of the same accounting treatment on equity method, the adoption of HKFRS 11 does not have a material financial impact on the Group.

### *Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as described above, the application of other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

#### **4. REVENUE, OTHER INCOME AND GAINS**

	<b>Six months ended 30 June</b>	
	<b>2013</b>	<b>2012</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>		
Online game revenue	<b>436,153</b>	392,573
Mobile Internet business revenue	<b><u>346,688</u></b>	<u>120,535</u>
	<b><u>782,841</u></b>	<u>513,108</u>
<b>Other income and gains</b>		
Business tax refunded	—	1,080
Government grants ( <i>Note</i> )	<b>13,173</b>	359
Interest income	<b>7,592</b>	12,451
Net gain on held for trading investments	<b>229</b>	—
Rental income, net of negligible outgoing expenses	<b>246</b>	201
Others	<b><u>1,163</u></b>	<u>1,076</u>
	<b><u>22,403</u></b>	<u>15,167</u>

*Note:* Government grants were received from the government of the People’s Republic of China (the “PRC”) for subsidising the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to software or technology development. There are no unfulfilled conditions or contingencies relating to the grants.

## 5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

### Six months ended 30 June 2013

	<b>Online game</b> <i>(Unaudited)</i> <i>RMB’000</i>	<b>Mobile Internet business</b> <i>(Unaudited)</i> <i>RMB’000</i>	<b>Total</b> <i>(Unaudited)</i> <i>RMB’000</i>
Segment revenue	<u>436,153</u>	<u>346,688</u>	<u>782,841</u>
Segment profit	<u>230,277</u>	<u>242,662</u>	472,939
Unallocated income and gains			8,450
Unallocated expenses			(123,550)
Impairment loss recognised in respect of interests in associates			(2,704)
Share of losses of associates			(705)
Share of profit of a joint venture			<u>918</u>
Profit before taxation			<u>355,348</u>

Six months ended 30 June 2012

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

The segment profit of mobile Internet business during the six months ended 30 June 2013 included net gain on derivative financial instruments relating to redeemable convertible preferred shares of RMB32,704,000 (2012: Net loss on derivative financial instruments of RMB20,241,000) and finance costs relating to redeemable convertible preferred shares and promissory notes of RMB10,875,000 and Nil, respectively (six months ended 30 June 2012: RMB8,425,000 and RMB623,000).

The accounting policies of the operating segment are the same as the Group's accounting policies. Segment profit or loss represents the profit earned by or loss from each segment 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, share of profit of a joint venture, impairment loss recognised in respect of interests in associates, net (loss) gain 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 2013 (Unaudited) RMB'000</b>	31 December 2012 (Audited) RMB'000
Online game	<b>1,566,899</b>	1,750,584
Mobile Internet business	<b><u>962,910</u></b>	<u>420,259</u>
Total segment assets	<b>2,529,809</b>	2,170,843
Unallocated	<b><u>187,840</u></b>	<u>274,510</u>
	<b><u><u>2,717,649</u></u></b>	<u><u>2,445,353</u></u>

## 6. TAXATION

	<b>Six months ended 30 June</b>	
	<b>2013 (Unaudited) RMB'000</b>	2012 (Unaudited) RMB'000
The charge comprises:		
Hong Kong Profits Tax	<b>3,561</b>	473
The PRC Enterprise Income Tax ("EIT")	<b>72,058</b>	25,239
Taxation in other jurisdictions	<b>91</b>	100
Deferred tax	<b><u>8,968</u></b>	<u>—</u>
	<b><u><u>84,678</u></u></b>	<u><u>25,812</u></u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 2013 and 2012.

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

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

## 7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	11,212	2,816
Other staff costs		
Salaries and other benefits	154,607	133,479
Contributions to retirement benefits schemes	22,282	10,811
Share-based payments expense	70,011	10,018
	<u>258,112</u>	<u>157,124</u>
Amortisation of intangible assets (included in cost of revenue)	817	1,225
Amortisation of intangible assets (included in other expenses)	—	1,368
Release of prepaid lease payments (included in administrative expenses)	729	729
Depreciation of property, plant and equipment	23,491	12,949
Operating lease rentals in respect of:		
- rented premises	7,626	8,465
- computer equipment	35,453	27,431
Net foreign exchange loss	7,029	1,559
Write off of intangible assets (included in other expenses)	—	2,036
Impairment loss recognised in respect of interests in associates (included in other expenses)	2,704	—
Loss (gain) on disposal of property, plant and equipment	<u>234</u>	<u>(1)</u>

## 8. DIVIDENDS

On 10 June 2013, a dividend of Hong Kong dollars (“HKD”) 0.20 per share (2012: HKD0.12 per share) was paid to shareholders as the final dividend for 2012. The aggregated amount of the final dividend paid in current interim period amounted to approximately RMB82,338,000 (2012: RMB50,062,000).

The directors have determined that an interim dividend of HKD0.20 per share (2012: HKD0.15 per share), amounting to approximately HKD101,802,000 (equivalent to approximately RMB81,090,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 9 September 2013.

## 9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
Earnings for the purpose of basic earnings per share		
- profit for the period attributable to the owners of the Company	236,401	100,803
Effect of dilutive potential ordinary shares		
- Adjustment to the share of profit of subsidiaries based on dilution of their earnings per share (Note)	<u>(26,009)</u>	<u>—</u>
Earnings for the purpose of dilutive earnings per share	<u>210,392</u>	<u>100,803</u>
	Number of shares	
	2013 (Unaudited) '000	2012 (Unaudited) '000
Weighted average number of shares in issue during the period, for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	504,677	512,933
Effect of dilutive potential shares from the Company's share option scheme	<u>6,975</u>	<u>1,079</u>
Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>511,652</u>	<u>514,012</u>

*Note:* The computation of diluted earnings per share for the period ended 30 June 2012 had not taken into account the effect of share awards and redeemable convertible preferred shares issued by a subsidiary of the Company since it was anti-dilutive.

## 10. PREPAID LEASE PAYMENTS/INVESTMENT PROPERTY

During the period ended 30 June 2013, the Group disposed the prepaid lease payment of approximately RMB11,760,000 with the same amount of consideration and spent approximately

RMB58,800,000 (2012: RMB55,901,000) for the acquisition of prepaid lease payment to expand its office buildings located in Fuzhou. Among the RMB55,901,000 addition of prepaid lease payments during the period ended 30 June 2012, RMB19,050,000 was paid in 2011 and recorded as deposit paid for acquisition of property, plant and equipment as at 31 December 2011, RMB9,472,000 was paid during the period ended 30 June 2012 and RMB27,379,000 was included in other payables and accruals as at 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 2013 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 2013 and 31 December 2012 (No significant changes in fair value between 30 June 2012 and 31 December 2011).

## 11. TRADE RECEIVABLES

The Group allows a credit period ranging from 30 to 90 days to its agents/trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods/date of rendering of services which approximated the respective dates on which revenue was recognised.

	<b>30 June 2013</b>	31 December 2012
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
0 - 30 days	<b>44,586</b>	38,519
31 - 60 days	<b>14,334</b>	12,753
61 - 90 days	<b>13,870</b>	4,252
Over 90 days	<b><u>11,726</u></b>	<u>5,903</u>
Total	<b><u><u>84,516</u></u></b>	<u><u>61,427</u></u>



## 12. TRADE AND OTHER PAYABLES

	<b>30 June 2013</b> <i>(Unaudited)</i> <b>RMB'000</b>	31 December 2012 <i>(Audited)</i> <b>RMB'000</b>
Trade payables	<b>15,824</b>	13,679
Accrued staff costs	<b>75,697</b>	69,213
Cooperation fee payable	<b>110,182</b>	48,791
Receipt in advance	<b>4,967</b>	20,717
Other payables and accruals	<b>91,694</b>	<u>69,737</u>
	<b><u>298,364</u></b>	<u>222,137</u>

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 2013</b> <i>(Unaudited)</i> <b>RMB'000</b>	31 December 2012 <i>(Audited)</i> <b>RMB'000</b>
0 - 90 days	<b>13,421</b>	11,484
91 - 180 days	<b>1,648</b>	1,330
181 - 365 days	<b>467</b>	44
Over 365 days	<b>288</b>	<u>821</u>
Total	<b><u>15,824</u></b>	<u>13,679</u>

## 13. PLEDGED BANK DEPOSIT/SECURED BANK BORROWING

The secured bank borrowing, which was denominated in HKD at interest rate of 4.14% per annum, was fully settled on 13 June 2013. The borrowing was secured by the pledged bank deposit which denominated in Euros (“EURO”) and was fully released upon the repayment of bank borrowing.

## 14. REDEEMABLE CONVERTIBLE PREFERRED SHARES

91 Wireless Websoft Limited (formerly known as “91 Limited”), a subsidiary of the Company, issued 15,384,000 series A redeemable convertible preferred shares of par value of US\$0.0001 each at an aggregate issue price of US\$3,999,840 to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investor L.P. and IDG-Accel China Growth Fund L.P. (collectively referred to as “IDG Companies”), group entities of a substantial shareholder of the Company, on 13 August 2011. The subsidiary also issued 16,025,000 series B redeemable convertible preferred shares of par value of US\$0.0001 each at an aggregate issue price of US\$20,000,000 (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. On 21 February 2012, the promissory notes issued by the subsidiary of the Company have been converted into 4,006,250 series B redeemable convertible preferred shares. On 12 October 2012, the subsidiary also issued 1,602,500 series B redeemable convertible preferred shares of par value of US\$0.0001 each at an aggregate issue price of US\$2,000,000 (equivalent to approximately RMB13,395,000) to Sino Coast Developments Limited. On 10 January 2013, the subsidiary has further issued 5,813,902 series B redeemable convertible preferred shares, 601,438 series B redeemable convertible preferred shares and 601,438 series B redeemable convertible preferred shares of par value of US\$0.0001 each to independent third parties, Pacific Century Diversified Limited, Grandwin Enterprises Limited and an individual investor at an aggregate issue price of US\$17,500,000 (equivalent to approximately RMB109,888,000). Both series A and series B redeemable convertible preferred shares are denominated in United States dollars. The principal activities of 91 Wireless Websoft Limited together with its subsidiaries are engaged in mobile Internet business.

On 10 January 2013, the Company has agreed with all the holders of the series A and series B redeemable convertible preferred shares to amend the conversion and redemption terms of series B redeemable convertible preferred shares. Under the amendments, the first day of the redemption option right of the holders was changed from 4th anniversary to 3rd anniversary of 9 December 2011. Before the amendments, the series B redeemable convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the redeemable convertible preferred shares and the 4th anniversary of 9 December 2011, into ordinary shares of the subsidiary of the Company. Under the amendments, the assumption adopted for the valuation of the last date of conversion has been changed from 4th anniversary of 9 December 2011 to 3rd anniversary of 9 December 2011.

Both series A and series B redeemable convertible preferred shares contain two components, liability component and conversion option and other derivative components. The effective interest rate of the liability component of the series B redeemable convertible preferred shares issued on 10 January 2013 is 16.82% per annum. The conversion option and other derivative components are measured at fair value with changes in fair value recognised in profit or loss.

On 27 March 2013, all the holders of the series A and series B redeemable convertible preferred shares give notice to convert the series A and series B redeemable convertible preferred shares into the 91 Wireless Websoft Limited's ordinary shares. Immediately before the conversion, the fair value of the conversion option and other derivatives component of the redeemable convertible preferred shares was approximately RMB291,407,000. Upon the conversion of the series A and series B redeemable convertible preferred shares, 44,034,528 ordinary shares of 91 Wireless Websoft Limited has been issued to the holders of series A and series B redeemable convertible preferred shares as abovementioned. The percentage of equity interest in the ordinary shares of 91 Wireless Websoft Limited held by the Group has been decreased from 83.25% to 57.41% upon the conversion.

The movements of the liability component and conversion option and other embedded derivatives of the series A and series B redeemable convertible preferred shares for the period are set out as below:

	<b>Liability component RMB'000</b>	<b>Conversion option and other derivatives RMB'000</b>
At 1 January 2012	131,675	39,932
Exchange realignment	(563)	(1,254)
Issue of redeemable convertible preferred shares	11,223	2,172
Converted from promissory notes	29,262	2,234
Interest charge	23,518	—
Loss arising on changes of fair value	<u>—</u>	<u>271,745</u>
At 31 December 2012 and 1 January 2013	195,115	314,829
Exchange realignment	(512)	(616)
Issue of redeemable convertible preferred shares	99,990	9,898
Interest charge	10,875	—
Gain arising on changes of fair value	—	(32,704)
Converted to ordinary shares	<u>(305,468)</u>	<u>(291,407)</u>
At 30 June 2013	<u>—</u>	<u>—</u>

The fair value of each underlying share of 91 Wireless Websoft Limited is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 15.25%, 15.36% and 15.55% were used as at 27 March 2013, 10 January 2013 and 31 December 2012, respectively.

The assumptions adopted for the valuation of the conversion option and other derivatives component of the redeemable convertible preferred shares using Binomial option pricing model as of 27 March 2013, 10 January 2013 and 31 December 2012 were as follows:

**Series A redeemable convertible preferred shares**

	<b>27 March 2013</b>	31 December 2012
Risk-free interest rate (i)	<b>0.22%</b>	0.37%
Expected volatility (ii)	<b>38.16%</b>	38.82%

**Series B redeemable convertible preferred shares**

	<b>27 March 2013</b>	10 January 2013	31 December 2012
Risk-free interest rate (i)	<b>0.22%</b>	0.26%	0.37%
Expected volatility (ii)	<b>38.16%</b>	38.09%	38.82%

*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.

## 15. SHARE-BASED PAYMENT TRANSACTIONS

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

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

In current interim period, options were granted on 16 January 2013. Details of such share options are as follows:

<b>Date of grant</b>	<b>Vesting period</b>	<b>Exercisable period</b>	<b>Outstanding at 30 June 2013</b>
16 January 2013	16 January 2013 - 15 January 2014	16 January 2014 - 15 January 2023	74,600
16 January 2013	16 January 2013 - 15 January 2015	16 January 2015 - 15 January 2023	111,900
16 January 2013	16 January 2013 - 15 January 2016	16 January 2016 - 15 January 2023	149,200
16 January 2013	16 January 2013 - 15 January 2017	16 January 2017 - 15 January 2023	186,500
16 January 2013	16 January 2013 - 15 January 2018	16 January 2018 - 15 January 2023	223,800
			<u>746,000</u>

Movements in the share options granted on 16 January 2013 are as follows:

<b>Date of grant</b>	<b>Granted during period</b>	<b>Forfeited during period</b>	<b>Outstanding at 30 June 2013</b>
16 January 2013	<u>789,500</u>	<u>(43,500)</u>	<u>746,000</u>

The fair value of the options granted on that date was approximately RMB2,562,000. 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	HKD10.98
Exercise price	HKD11.16
Risk-free interest rate	0.627-0.704%
Expected option life	7.7-8.7 years
Expected volatility	45.64%
Expected dividend yield	2.46%

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

The table below discloses movement of the Company's share options

	<b>Number of Share options</b>
Outstanding as at 1 January 2013	26,022,217
Granted during the period	789,500
Forfeited during the period	(595,750)
Exercised during the period	<u>(3,695,400)</u>
Outstanding as at 30 June 2013	<u><u>22,520,567</u></u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD14.69.

The Group recognised the total expenses of approximately RMB5,014,000 for the six months ended 30 June 2013 (six months ended 30 June 2012: RMB5,762,000) in relation to share options granted by the Company.

**(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 Group recognised the total expenses of approximately RMB5,490,000 for the six months ended 30 June 2013 (2012: RMB20,000) in relation to share award.

317,397 share awards were vested and released during the six months ended 30 June 2013 (six months ended 30 June 2012: Nil). The number of share awards outstanding at 30 June 2013 was 1,269,603.

(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 Wireless Websoft Limited, introduced a share award scheme (the “91 Share Award Scheme”), whereby eligible participants are conferred rights by 91 Wireless Websoft Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Wireless Websoft Limited (hereinafter referred to as the “91 Award”).

On 29 April 2013, the management has agreed with the eligible participants who conferred the rights of the 91 Award on 31 December 2012 to change the vesting period.

The relevant vesting date and number of awarded shares to be vested before changes of vesting date are listed below:

<b>Grant date</b>	<b>Relevant vesting date</b>	<b>No. of awarded shares to be vested</b>
31 December 2012	31 December 2013	392,500
31 December 2012	31 January 2014	259,775
31 December 2012	31 December 2014	392,500
31 December 2012	31 January 2015	259,775
31 December 2012	31 December 2015	392,500
31 December 2012	31 January 2016	<u>259,775</u>
		<u><u>1,956,825</u></u>

The relevant vesting date and number of awarded shares to be vested after changes of vesting date are listed below:

<b>Grant date</b>	<b>Relevant vesting date</b>	<b>No. of awarded shares vested/to be vested</b>
31 December 2012	30 April 2013	1,304,550
31 December 2012	7 June 2014	<u>652,275</u>
		<u><u>1,956,825</u></u>

The fair values changes arising from the change in vesting dates was determined by the directors with reference to valuation report carried out by an independent qualified professional valuer, Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group. The effect of changes in vesting period is insignificant during the period ended 30 June 2013.

Among the shares granted, relevant vesting date and number of awarded shares to be vested are listed below:

<b>Grant date</b>	<b>Relevant vesting date</b>	<b>No. of awarded shares to be vested</b>
8 February 2012	7 June 2014	464,275
31 December 2012	7 June 2014	<u>652,275</u>
		<u><u>1,116,550</u></u>

The Group recognised the total expenses of approximately RMB34,684,000 for the six months ended 30 June 2013 in relation to share award issued by a subsidiary of the Company under the 91 Share Award Scheme (2012: RMB5,664,000).

2,472,009 91 Awards were vested during the period ended 30 June 2013 (30 June 2012: 1,647,966 shares).

(iv) **Shares awarded by a subsidiary of the Company**

Pursuant to the announcement of the Company dated 10 January 2013, a direct wholly owned subsidiary of the Company, NetDragon Websoft Inc. has awarded 6,114,500 shares of 91 Wireless Websoft Limited to certain selected employees of the Group. Among the shares awarded, 1,528,625 shares were entitled by the selected employees on 9 January 2013, 1,528,625 shares will be entitled by the selected employees on 1 January 2014, 1,528,625 shares will be entitled by the selected employees on 1 January 2015 and the remaining 1,528,625 shares will be entitled by the selected employees on 1 January 2016.

Fair value of the shares awarded 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. The fair value of the shares awarded on 9 January 2013 was approximately RMB70,165,000.

The Group recognised the total expenses of approximately RMB34,610,000 for the six months ended 30 June 2013 in relation to the shares awarded on 9 January 2013.

1,528,625 shares awarded on 9 January 2013 were entitled by the selected employees and released during the period ended 30 June 2013.



## 16. EVENTS AFTER THE REPORTING PERIOD

### **Proposed disposal of 91 Wireless Websoft Limited**

On 15 July 2013, a direct wholly owned subsidiary of the Company, NetDragon Websoft Inc., a limited liability company incorporated in the British Virgin Islands (“NetDragon BVI”), entered into the legally binding Memorandum of Understanding with an independent third party in relation to the proposed disposal of its entire equity interest in 91 Wireless Websoft Limited, representing approximately 57.41% of the total issued share capital of 91 Wireless Websoft Limited, at consideration of US\$1.09 billion (equivalent to approximately RMB6,664 million).

On 14 August 2013, NetDragon BVI entered into a definitive agreement (“Agreement”) with the independent third party, pursuant to which NetDragon BVI has conditionally agreed to sell the entire equity interest of 91 Wireless Websoft Limited.

Under the Agreement, the Group shall be entitled to receive an aggregate consideration of US\$1.09 billion (equivalent to approximately RMB6,664 million) before a special dividend of US\$29.89 million (equivalent to approximately RMB183 million). The net consideration after declaration of special dividend should be US\$1.06 billion (equivalent to approximately RMB6,481 million) for the disposal of the Group’s entire equity interest in 91 Wireless Websoft Limited, representing 57.41% equity interest of 91 Wireless Websoft Limited held by the Group at 14 August 2013.

The directors of the Company are still assessing the financial impact of this transaction. Further details of the proposed disposal of 91 Wireless Websoft Limited are set out in the announcements of the Company dated 15 July 2013 and 16 August 2013.

### **Repurchase of shares**

On 22 July 2013 and 23 July 2013, the Company repurchased a total of 794,500 shares and 2,000,000 shares on the Stock Exchange, representing approximately 0.16% and 0.39% of the existing issued share capital, at an aggregate consideration of HKD50,948,020.

## 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*):

	<b>Three months ended</b>				
	<b>30 June 2013</b>	31 March 2013	31 December 2012	30 September 2012	30 June 2012
<b>PCU</b>	<b>468,000</b>	445,000	521,000	525,000	582,000
<b>ACU</b>	<b>255,000</b>	237,000	287,000	281,000	307,000

*Note:* As at 30 June 2013, 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 468,000 for the three months ended 30 June 2013, representing an increase of approximately 5.2% from the three months ended 31 March 2013 and representing a decrease of approximately 19.6% from the three months ended 30 June 2012.

We also recorded the ACU for online games of approximately 255,000 for the three months ended 30 June 2013, which represented an increase of approximately 7.6% from the three months ended 31 March 2013 and represented a decrease of approximately 16.9% from the three months ended 30 June 2012.

**FINANCIAL PERFORMANCE HIGHLIGHTS**  
**SIX MONTHS ENDED 30 JUNE 2013**

The following table sets forth the comparative figures for the six months ended 30 June 2013 and 2012:

	<b>Six months ended 30 June</b>	
	<b>2013</b>	<b>2012</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<b>782,841</b>	513,108
Cost of revenue	<u>(87,292)</u>	<u>(70,733)</u>
Gross profit	<b>695,549</b>	442,375
Other income and gains	<b>22,403</b>	15,167
Selling and marketing expenses	<b>(74,619)</b>	(70,565)
Administrative expenses	<b>(187,438)</b>	(113,181)
Development costs	<b>(109,948)</b>	(95,950)
Other expenses	<b>(13,776)</b>	(16,707)
Share of losses of associates	<b>(705)</b>	(658)
Share of profit of a joint venture	<u><b>918</b></u>	<u>—</u>
<b>Operating profit</b>	<b>332,384</b>	160,481
Interest income on pledged bank deposit	<b>3,821</b>	—
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares	<b>3,030</b>	(1,423)
Net gain (loss) on derivative financial instruments	<b>30,345</b>	(23,339)
Finance costs	<u><b>(14,232)</b></u>	<u>(9,048)</u>
<b>Profit before taxation</b>	<b>355,348</b>	126,671
Taxation	<u><b>(84,678)</b></u>	<u>(25,812)</u>
<b>Profit for the period</b>	<u><b>270,670</b></u>	<u>100,859</u>
Profit for the period attributable to:		
- Owners of the Company	<b>236,401</b>	100,803
- Non-controlling interests	<u><b>34,269</b></u>	<u>56</u>
	<u><b>270,670</b></u>	<u>100,859</u>

## Revenue

In the third quarter of 2012, we had revisited the terms of certain contracts entered into by the Group with cooperation partners in respect of game and application revenue derived from mobile Internet business in 2012. These agreements were entered into with cooperation partners, pursuant to which the games/applications designed, developed and hosted by cooperation partners are available to the users on the Group's mobile Internet platforms. We believe that the Group is acting as an agent and such revenue should be recognised on a net basis, instead of gross basis. We believe that such change will result in presentation of revenue results in more reliable and relevant information about the effects of transactions and financial performance of the Group. Hence, net basis for revenue from the games/applications designed, developed and hosted by cooperation partners was used to present the mobile Internet business revenue for the six months ended 30 June 2013. The comparative figure for the three months and six months ended 30 June 2012 had not been restated because it is insignificant.

Revenue for the six months ended 30 June 2013 was approximately RMB782.8 million, representing an increase of approximately 52.6% as compared to approximately RMB513.1 million for the six months ended 30 June 2012.

### *Online game*

Our online game revenue for the six months ended 30 June 2013 was approximately RMB436.1 million, representing an increase of approximately 11.1% as compared to approximately RMB392.6 million for the six months ended 30 June 2012.

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

	Six months ended 30 June			
	2013		2012	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	381,229	87.4	339,108	86.4
Overseas	<u>54,924</u>	<u>12.6</u>	<u>53,465</u>	<u>13.6</u>
	<u>436,153</u>	<u>100.0</u>	<u>392,573</u>	<u>100.0</u>

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The online game revenue derived from the PRC for the six months ended 30 June 2013 was approximately RMB381.2 million, representing an increase of approximately 12.4% over the six months ended 30 June 2012.

The online game revenue derived from overseas markets for the six months ended 30 June 2013 was approximately RMB54.9 million, representing an increase of approximately 2.7% over the six months ended 30 June 2012.

#### *Mobile Internet business*

The mobile Internet business revenue for the six months ended 30 June 2013 was approximately RMB346.7 million, representing an increase of approximately 187.6% as compared to approximately RMB120.5 million for the six months ended 30 June 2012.

### **Second Quarter of 2013**

#### **Revenue**

Revenue for the second quarter of 2013 was approximately RMB426.1 million representing an increase of approximately 19.5% from the first quarter of 2013 and an increase of approximately 54.3% over the same period in 2012.

The online game revenue for the second quarter of 2013 was approximately RMB224.2 million, representing an increase of approximately 5.7% from the first quarter of 2013 and an increase of approximately 11.5% over the same period in 2012.

The mobile Internet business revenue for the second quarter of 2013 was approximately RMB201.9 million, representing an increase of approximately 39.5% from the first quarter of 2013 and an increase of approximately 168.8% over the same period in 2012.

#### **Cost of revenue**

Cost of revenue for the second quarter of 2013 was approximately RMB40.6 million, representing a decrease of approximately 12.9% from the first quarter of 2013 and a decrease of approximately 4.3% over the same period in 2012.

### **Other income and gains**

Other income and gains of approximately RMB7.2 million were recorded for the second quarter of 2013, representing a decrease of approximately 52.8% from the first quarter of 2013 and a decrease of approximately 36.9% over the same period in 2012.

### **Selling and marketing expenses**

Selling and marketing expenses for the second quarter of 2013 were approximately RMB39.1 million, representing an increase of approximately 10.1% from the first quarter of 2013 and an increase of approximately 5.5% over the same period in 2012.

### **Administrative expenses**

Administrative expenses for the second quarter of 2013 were approximately RMB84.6 million, representing a decrease of approximately 17.7% from the first quarter of 2013 and representing an increase of approximately 55.9% over the same period in 2012.

### **Development costs**

Development costs for the second quarter of 2013 were approximately RMB55.3 million, representing an increase of approximately 1.1% from the first quarter of 2013 and an increase of approximately 10.2% over the same period in 2012.

### **Other expenses**

Other expenses for the second quarter of 2013 were approximately RMB9.0 million, representing an increase of approximately 85.8% from the first quarter of 2013 and a decrease of approximately 40.2% over the same period in 2012.

### **Operating profit**

Operating profit for the second quarter of 2013 were approximately RMB204.3 million, representing an increase of approximately 59.5% from the first quarter of 2013 and an increase of approximately 131.4% over the same period in 2012.

**Net (loss) gain on derivative financial instruments**

Net loss on derivative financial instruments for the second quarter of 2013 was approximately RMB8.0 million, net gain on derivative financial instruments for the first quarter of 2013 was approximately RMB38.4 million and net loss on derivative financial instruments for the same period in 2012 was approximately RMB19.4 million.

**Finance costs**

Finance costs for the second quarter of 2013 were approximately RMB1.5 million, representing a decrease of approximately 88.2% from the first quarter of 2013 and a decrease of approximately 65.1% over the same period in 2012.

**Profit for the period**

Profit for the second quarter of 2013 was approximately RMB154.3 million, representing an increase of approximately 32.6% from the first quarter of 2013 and an increase of approximately 243.0% over the same period in 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 second quarter of 2013 was approximately RMB124.6 million, representing an increase of approximately 11.5% from the first quarter of 2013 and an increase of approximately 176.7% over the same period in 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Second Quarter of 2013 Compared to First Quarter of 2013

The following table sets forth the comparative figures for the second quarter of 2013 and the first quarter of 2013:

	<b>Three months ended</b>	
	<b>30 June 2013</b>	31 March 2013
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<b>426,116</b>	356,725
Cost of revenue	<u>(40,633)</u>	<u>(46,659)</u>
Gross profit	<b>385,483</b>	310,066
Other income and gains	<b>7,186</b>	15,217
Selling and marketing expenses	<b>(39,109)</b>	(35,510)
Administrative expenses	<b>(84,616)</b>	(102,822)
Development costs	<b>(55,288)</b>	(54,660)
Other expenses	<b>(8,956)</b>	(4,820)
Share of losses of associates	<b>(312)</b>	(393)
Share of (loss) profit of a joint venture	<u>(95)</u>	<u>1,013</u>
<b>Operating profit</b>	<b>204,293</b>	128,091
Interest income on pledged bank deposit	<b>1,896</b>	1,925
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares	<b>7,683</b>	(4,653)
Net (loss) gain on derivative financial instruments	<b>(8,015)</b>	38,360
Finance costs	<u>(1,507)</u>	<u>(12,725)</u>
<b>Profit before taxation</b>	<b>204,350</b>	150,998
Taxation	<u>(50,062)</u>	<u>(34,616)</u>
<b>Profit for the period</b>	<u><b>154,288</b></u>	<u>116,382</u>
Profit for the period attributable to:		
- Owners of the Company	<b>124,614</b>	111,787
- Non-controlling interests	<u>29,674</u>	<u>4,595</u>
	<u><b>154,288</b></u>	<u>116,382</u>



## FINANCIAL REVIEW

### Revenue

Our revenue for the three months ended 30 June 2013 was approximately RMB426.1 million, representing an increase of approximately 19.5% as compared to approximately RMB356.7 million for the three months ended 31 March 2013.

#### *Online game*

Our online game revenue for the three months ended 30 June 2013 was approximately RMB224.2 million, representing an increase of approximately 5.7% as compared to approximately RMB212.0 million for the three months ended 31 March 2013.

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

	Three months ended		31 March 2013	
	30 June 2013			
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
<b>PRC</b>	<b>198,315</b>	<b>88.5</b>	182,914	86.3
<b>Overseas</b>	<b><u>25,844</u></b>	<b><u>11.5</u></b>	<u>29,080</u>	<u>13.7</u>
	<b><u>224,159</u></b>	<b><u>100.0</u></b>	<u>211,994</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 June 2013 was approximately RMB198.3 million, representing an increase of approximately 8.4% as compared to approximately RMB182.9 million for the three months ended 31 March 2013. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from Eudemons Online.

The online game revenue derived from overseas markets for the three months ended 30 June 2013 was approximately RMB25.9 million, representing a decrease of approximately 11.1% as compared to approximately RMB29.1 million for the three months ended 31 March 2013.

### *Mobile Internet business*

The mobile Internet business revenue for the three months ended 30 June 2013 was approximately RMB201.9 million, representing an increase of approximately 39.5% as compared to approximately RMB144.7 million for the three months ended 31 March 2013. The increase was mainly contributed by (i) the increase of mobile advertising and promotional services revenue; and (ii) the increase of mobile value-added services revenue.

#### **Cost of revenue**

Cost of revenue for the three months ended 30 June 2013 was approximately RMB40.6 million, representing a decrease of approximately 12.9% as compared to approximately RMB46.6 million for the three months ended 31 March 2013. The decrease was mainly due to the decrease in message service fee and server leasing fee of mobile Internet business.

The cost of revenue of mobile Internet business for the three months ended 30 June 2013 and 31 March 2013 was approximately RMB22.9 million and approximately RMB27.0 million, respectively.

#### **Gross profit**

Our gross profit for the three months ended 30 June 2013 was approximately RMB385.5 million, representing an increase of approximately 24.3% as compared to approximately RMB310.1 million for the three months ended 31 March 2013.

Gross profit margin for the three months ended 30 June 2013 was approximately 90.5%, which represented an increase of approximately 3.6% as compared with the three months ended 31 March 2013.

#### **Other income and gains**

Other income and gains for the three months ended 30 June 2013 was approximately RMB7.2 million, representing a decrease of approximately 52.8% as compared to approximately RMB15.2 million for the three months ended 31 March 2013. The decrease was mainly due to the decrease in interest income and government grants.

## **Selling and marketing expenses**

Selling and marketing expenses for the three months ended 30 June 2013 were approximately RMB39.1 million, representing an increase of approximately 10.1% as compared with the three months ended 31 March 2013. The increase in the amount of selling and marketing expenses was mainly due to (i) the increase in advertising expenses; and (ii) the increase in internet and website maintenance fees.

As at 30 June 2013, the total number of selling and marketing staff in the mobile Internet business was 320, which has increased by approximately 20.3%, as compared with the number of staff as at 31 March 2013. The selling and marketing expenses of mobile Internet business for the three months ended 30 June 2013 and 31 March 2013 were approximately RMB16.0 million and approximately RMB12.0 million, respectively.

## **Administrative expenses**

Administrative expenses decreased by approximately 17.7% to approximately RMB84.6 million for the three months ended 30 June 2013 as compared with the three months ended 31 March 2013, which was mainly due to offset of (i) the decrease in share-based payments expense for the grant of share options and share awards to certain eligible participants as incentives and staff benefits in order to retain them for the contribution of the Group; (ii) the decrease in depreciation; (iii) the decrease in repairs and maintenance fees and technical service fee; and (iv) the increase in legal and professional fees for proposed spin-off of 91 Wireless Websoft Limited, which will not be effective if the proposed disposal of the issued share capital of 91 Wireless Websoft Limited takes place.

As at 30 June 2013, the total number of accounting, finance and general administration staff in the mobile Internet business was 63, which was increased by approximately 18.9%, as compared with the number of staff as at 31 March 2013. The total administrative expenses of mobile Internet business for the three months ended 30 June 2013 and 31 March 2013 were approximately RMB34.6 million and approximately RMB21.4 million, respectively.

## **Development costs**

Development costs increased by approximately 1.1% to approximately RMB55.3 million for the three months ended 30 June 2013 as compared with the three months ended 31 March 2013. The increase in the development costs was mainly caused by offset of (i) the increase in outsourcing fee; and (ii) the decrease of staff costs.

As at 30 June 2013, the total number of research and development staff in the mobile Internet business was 638, which was increased by approximately 4.2%, as compared with the number of staff as at 31 March 2013. The total development costs of mobile Internet business for the three months ended 30 June 2013 and 31 March 2013 were approximately RMB17.1 million and approximately RMB19.8 million, respectively.

### **Other expenses**

Other expenses for the three months ended 30 June 2013 were approximately RMB9.0 million, representing an increase of approximately 85.8% as compared with three months ended 31 March 2013. The increase in other expenses was mainly caused by (i) the increase in business tax for inter-group transactions; and (ii) the increase in impairment loss recognised in respect of interests in associates.

### **Operating profit**

Operating profit for the three months ended 30 June 2013 was approximately RMB204.3 million, representing an increase of approximately 59.5% as compared to approximately RMB128.1 million for the three months ended 31 March 2013.

### **Net (loss) gain on derivative financial instruments**

Net loss on derivative financial instruments for the three months ended 30 June 2013 was approximately RMB8.0 million, however, net gain on derivative financial instruments for the three months ended 31 March 2013 was approximately RMB38.4 million. The net loss for the three months ended 30 June 2013 was loss on the foreign currency forward contract matured.

The fair value gain of approximately RMB32.5 million on conversion option and other derivatives of the redeemable convertible preferred shares are the same for both three months ended 30 June 2013 and 31 March 2013, because the redeemable convertible preferred shares were converted into the ordinary shares of 91 Wireless Websoft Limited on 27 March 2013.

### **Finance costs**

Finance costs for the three months ended 30 June 2013 was approximately RMB1.5 million, representing a decrease of approximately 88.2% as compared with the three months ended 31 March 2013. The decrease in finance costs was due to the decrease in interest expense on the liability component of the redeemable convertible preferred shares.

**Taxation**

Taxation for the three months ended 30 June 2013 was approximately RMB50.1 million, which raised by approximately 44.6% as compared with the three months ended 31 March 2013. The increase was mainly due to the increase in assessable profit.

**Profit for the period attributable to the owners of the Company**

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2013 was approximately RMB124.6 million, representing an increase of approximately RMB12.8 million as compared with approximately RMB111.8 million for the three months ended 31 March 2013.

## Second Quarter of 2013 Compared to Second Quarter of 2012

The following table sets forth the comparative figures for the second quarter of 2013 and 2012:

	<b>Three months ended 30 June</b>	
	<b>2013</b>	<b>2012</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<b>426,116</b>	276,133
Cost of revenue	<u>(40,633)</u>	<u>(42,458)</u>
Gross profit	<b>385,483</b>	233,675
Other income and gains	<b>7,186</b>	11,397
Selling and marketing expenses	<b>(39,109)</b>	(37,078)
Administrative expenses	<b>(84,616)</b>	(54,270)
Development costs	<b>(55,288)</b>	(50,164)
Other expenses	<b>(8,956)</b>	(14,986)
Share of losses of associates	<b>(312)</b>	(285)
Share of loss of a joint venture	<u>(95)</u>	<u>—</u>
<b>Operating profit</b>	<b>204,293</b>	88,289
Interest income on pledged bank deposit	<b>1,896</b>	—
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares	<b>7,683</b>	(1,642)
Net loss on derivative financial instruments	<b>(8,015)</b>	(19,378)
Finance costs	<u>(1,507)</u>	<u>(4,319)</u>
<b>Profit before taxation</b>	<b>204,350</b>	62,950
Taxation	<u>(50,062)</u>	<u>(17,964)</u>
<b>Profit for the period</b>	<u><b>154,288</b></u>	<u>44,986</u>
Profit for the period attributable to:		
- Owners of the Company	<b>124,614</b>	45,032
- Non-controlling interests	<u><b>29,674</b></u>	<u>(46)</u>
	<u><b>154,288</b></u>	<u>44,986</u>

## FINANCIAL REVIEW

### Revenue

Our revenue for the three months ended 30 June 2013 was approximately RMB426.1 million, representing an increase of approximately 54.3% as compared to approximately RMB276.1 million for the three months ended 30 June 2012.

#### *Online game*

Our online game revenue for the three months ended 30 June 2013 was approximately RMB224.2 million, representing an increase of approximately 11.5% as compared to approximately RMB201.0 million for the three months ended 30 June 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	
	2013		2012	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
<b>PRC</b>	<b>198,315</b>	<b>88.5</b>	175,083	87.1
<b>Overseas</b>	<b><u>25,844</u></b>	<b><u>11.5</u></b>	<u>25,909</u>	<u>12.9</u>
	<b><u>224,159</u></b>	<b><u>100.0</u></b>	<u>200,992</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 June 2013 was approximately RMB198.3 million, representing an increase of approximately 13.3% as compared to approximately RMB175.1 million for the three months ended 30 June 2012. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from Eudemons Online.

The online game revenue derived from overseas markets for the three months ended 30 June 2013 amounted to approximately RMB25.9 million, keeping at a steady level as compared with the three months ended 30 June 2012.

### *Mobile Internet business*

The mobile Internet business revenue for the three months ended 30 June 2013 was approximately RMB201.9 million, representing an increase of approximately 168.8% as compared to approximately RMB75.1 million for the three months ended 30 June 2012. The increase was mainly contributed by (i) the increase of mobile advertising and promotional service revenue; and (ii) the increase of mobile value-added services revenue.

#### **Cost of revenue**

Cost of revenue for the three months ended 30 June 2013 decreased by approximately 4.3% to approximately RMB40.6 million as compared with that of approximately RMB42.5 million for the three months ended 30 June 2012. The decrease was mainly due to the decrease in server leasing fee.

#### **Gross profit**

Our gross profit for the three months ended 30 June 2013 was approximately RMB385.5 million, representing an increase of approximately 65.0% as compared to approximately RMB233.7 million for the three months ended 30 June 2012.

Gross profit margin for the three months ended 30 June 2013 was approximately 90.5%, which represented an increase of approximately 5.9% as compared with the three months ended 30 June 2012.

#### **Other income and gains**

Other income and gains for the three months ended 30 June 2013 was approximately RMB7.2 million, representing a decrease of approximately 36.9% as compared with the three months ended 30 June 2012. The decrease in other income and gains was mainly due to the decrease in interest income and government grants.

#### **Selling and marketing expenses**

Selling and marketing expenses for the three months ended 30 June 2013 increase by approximately 5.5% to approximately RMB39.1 million as compared with the three months ended 30 June 2012. The increase in selling and marketing expenses was mainly due to offset of (i) the decrease in advertising expenses for Dungeon Keeper™ Online and Absolute Force Online; (ii) the decrease in promotion activities for Eudemons Online; (iii) the increase in staff costs related to recruiting experienced



staff to strengthen the mobile Internet business operations and development; and (iv) the increase in share-based payments expense for the grant of share awards and share options as incentives in order to retain certain eligible participants for the contribution of the continuing operation and development of the Group.

As at 30 June 2013, the total number of selling and marketing staff in the mobile Internet business was 320, which was increased by approximately 48.8%, as compared with the number of staff as at 30 June 2012. The selling and marketing expenses of mobile Internet business for the three months ended 30 June 2013 were approximately RMB16.0 million.

### **Administrative expenses**

Administrative expenses increased by approximately 55.9% to approximately RMB84.6 million for the three months ended 30 June 2013 as compared with the three months ended 30 June 2012. The increase in administrative expenses was mainly due to (i) the increase in legal and professional fees for proposed spin-off of 91 Wireless Websoft Limited which will not be effective if the proposed disposal of the issued share capital of 91 Wireless Websoft Limited takes place; and (ii) the increase in share-based payments expense for the grant of share awards and share options to certain eligible participants as incentives in order to retain them for the contribution of the continuing operation and development of the Group.

As at 30 June 2013, the total number of accounting, finance and general administration staff in the mobile Internet business was 63, which was increased by approximately 37.0%, as compared with the number of staff as at 30 June 2012. The administrative expenses of mobile Internet business for the three months ended 30 June 2013 were approximately RMB34.6 million.

### **Development costs**

Development costs increased by approximately 10.2 % to approximately RMB55.3 million for the three months ended 30 June 2013 as compared with the three months ended 30 June 2012. The increase in the amount of development costs was mainly caused by the increase in contributions to retirement benefits schemes.

As at 30 June 2013, the total number of research and development staff in the mobile Internet business was 638, which was increased by approximately 37.5%, as compared with the number of staff as at 30 June 2012. The total development costs of mobile Internet business for the three months ended 30 June 2013 were approximately RMB17.1 million.

## **Other expenses**

Other expenses for the three months ended 30 June 2013 were approximately RMB9.0 million, which represented a decrease of approximately 40.2% as compared with the three months ended 30 June 2012. The decrease in the amount of other expenses was mainly caused by offset of (i) the increase in business tax for inter-group transactions; and (ii) the decrease in compensation for termination of a contract and write off of intangible assets.

## **Operating profit**

Operating profit for the three months ended 30 June 2013 was approximately RMB204.3 million, representing an increase of approximately 131.4% as compared to approximately RMB88.3 million for the three months ended 30 June 2012.

## **Net loss on derivative financial instruments**

Net loss on derivative financial instruments for the three months ended 30 June 2013 and 2012 was approximately RMB8.0 million and approximately RMB19.4 million, respectively. The decrease in net loss was mainly due to offset of (i) the increase in fair value loss of the foreign currency forward contract; and (ii) the decrease in fair value loss on conversion option and other derivatives of the redeemable convertible preferred shares.

## **Finance costs**

Finance costs decreased by approximately 65.1% to approximately RMB1.5 million for the three months ended 30 June 2013 as compared with the three months ended 30 June 2012, which was due to the decrease in interest expenses on the liability component of the redeemable convertible preferred shares and secured bank borrowing.

## **Taxation**

Taxation for the three months ended 30 June 2013 was approximately RMB50.1 million, which raised by approximately 178.7% as compared with the three months ended 30 June 2012. The increase was due to the increase in assessable profit.

## **Profit for the period attributable to the owners of the Company**

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2013 was approximately RMB124.6 million, representing an increase of approximately RMB79.6 million as compared with approximately RMB45.0 million for the three months ended 30 June 2012.

## Non-GAAP Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRSs, the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. These non-GAAP measures are not expressly permitted measures under HKFRSs and may not be comparable to similarly titled measures for other companies. The non-GAAP financial measures of the Group exclude share-based payments expense, interest income on pledged bank deposit, exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares, net gain (loss) on derivative financial instruments and finance costs.

The non-GAAP measures of the Group are presented as follows:

	Period ended		Three months ended		
	30 June	30 June	30 June	31 March	30 June
	2013	2012	2013	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-GAAP operating profit	<b>411,924</b>	171,927	<b>236,468</b>	175,456	97,072
Non-GAAP profit	<b>327,246</b>	146,115	<b>186,406</b>	140,840	79,108
Non-GAAP profit attributable to owners of the Company	<b>292,977</b>	146,059	<b>156,732</b>	136,245	79,154

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2013, the Group had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB1,835.5 million (31 December 2012: RMB1,731.3 million), no deposit (31 December 2012: RMB194.4 million) had been pledged to bank to secure bank borrowing. The gearing ratio (consolidated bank borrowing/consolidated total equity) was zero (31 December 2012: 0.13). As at 30 June 2013, the Group had no bank borrowing outstanding (31 December 2012: bank borrowing of approximately RMB183.6 million was fixed interest rate loan).

As at 30 June 2013, the Group had net current assets of approximately RMB1,636.6 million as compared with approximately RMB1,369.3 million as at 31 December 2012.

## 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 2013</b>	At 31 March 2013	At 30 June 2012
Research and development	<b>1,775</b>	1,795	1,724
Selling and marketing	<b>791</b>	828	717
Accounting, finance and general administration	<u><b>609</b></u>	<u>556</u>	<u>379</u>
Total	<u><b>3,175</b></u>	<u>3,179</u>	<u>2,820</u>

As at 30 June 2013, the Group had a total of 3,175 employees (3,179 as at 31 March 2013 and 2,820 as at 30 June 2012, respectively), 789 of which were online game developers of the research and development department, represented approximately 24.9% of the total number of staff.

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

	<b>At 30 June 2013</b>	At 31 March 2013	At 30 June 2012
Research and development	<b>638</b>	612	464
Selling and marketing	<b>320</b>	266	215
Accounting, finance and general administration	<u><b>63</b></u>	<u>53</u>	<u>46</u>
Total	<u><b>1,021</b></u>	<u>931</u>	<u>725</u>

## **BUSINESS REVIEW**

During the period under review, the Group continued the endeavors 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.

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

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

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

During the period under review, the Group has continued to introduce new expansion packs to enrich its existing games. The open beta testing of new expansion packs of Eudemons Online (魔域) called “Dawn of Romance”\* (傾城之戀) was officially carried out in April 2013, enhancing the strong attractions of this game to players. In addition, the Group is currently developing the mobile version of Eudemons Online (魔域) which will continue to adopt the tasks and some playing methods used in Eudemons Online (魔域). New Chinese expansion packs of Zero Online (機戰) called “Airframe Super Evolution”\* (機體超級進化) and “Advent”\* (救世主) were also released in May 2013.

Crazy Tribe\* (瘋狂部落) is a 2.5D MMORPG, it is a large-scale Internet game for multiple online players using the primitive society as background with fresh, lovely and artistic style. The lost mysterious ancient civilization, a rich system of pre-historical monsters, a thrilling and exciting pre-historical adventure map, fresh and interesting primitive tribal activities, are the highlights of this game. This game has carried out unlimited paid testing in January 2013, and released the new expansion pack “Crazy Test”\* (瘋狂測試) in April 2013.

Evil Spirits\* (妖界) is a fostering strategic type of game integrating leisure strategy, instantaneous fighting and social group mutual interactions with Chinese myths as background. This game opened iOS pay version on 1 March 2013.

\* For identification purpose only

COS\* (英魂之刃) is a MOBA (Multiplayer Online Battle Arena) type of online game integrating several subjects such as science fiction, fantasy and mystique. In the game, which uses time-travel as background, mythical creatures and legendary heroes from various generations and civilizations gather to the world and fight for COS\* (英魂之刃). A player of this game will command his/her own heroes to fight a battle of wits and courage against other players. This game has carried out unlimited testing in May 2013.

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 "Return of the Archer"\* (弓手翻身) for Conquer Online\* (征服) in English, French, Spanish and Arabian versions. The Group expected the provision 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 a larger user base. The Group has launched the expansion pack "Edge of Night"\* (吸血聖戰) for Eudemons Online (魔域) in Portuguese in May 2013.

### **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.

*Age of Egmont\** (獵龍戰記) (previously named as "Age of Emblem"\* (紋章物語))

It is the first imaginative style ARPG researched and developed by the Group, which is mainly about the adventure story of a courageous dragon-hunter who challenges fierce dragons. The game highlights fierce and brisk fighting in dragon hunting with a refreshing style. The Group is considering to expand this game to the mobile end systems, seeking to produce a new breakthrough to the game.

\* For identification purpose only

## Mobile Internet Business

During the period under review, the mobile Internet business has become a significant part of the Group's businesses, mainly due to the continuous efforts put into the research and development and promotion of self-developed software products and games for smart-phones.

During the period under review, the Group continues to launch self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. As of 30 June 2013, the total number of users of the 91 series smart phone application software (including 91 Assistant\* (91助手) (formerly known as "91 PC Suite") and HiMarket\* (安卓市場), 91 Panda Reader\* (91熊貓看書), 91 Launcher\* (91桌面), etc.), the advanced smart phone applications in the PRC, has continued to increase.

Among these applications, 91 Assistant\* (91助手) is a mobile equipment management tool and a mobile apps store. We continued to optimize its existing functions, released many new versions and commenced important business co-operations with different parties to enhance the product competitiveness as well as user experience.

The Group continued to expand the scope of cooperation in group telecommunication in relation to the application of HiMarket\* (安卓市場) during the period under review, and established pre-fabrication cooperative relationship with several domestic large-scale chains of IT channels and initiate Android weekly cooperation model, which will be provided with operating contents by HiMarket and cooperate with well-known reading operator in the industry by cross recommendation, to improve the awareness of the brand.

91 Panda Reader\* (91熊貓看書) continued to develop self-developed contents and enhance contents introduction cooperation at the same time, so as to produce premium reading tool through multi-lateral cooperation.

During the period under review, the Group has also launched the updated versions of self-developed cross-platform mobile games, such as Warring States\* (戰國天下), Chaos Hero (亂世封神) and Legend of the Emperor (帝王傳) etc., promoted the refining of games, so as to attract entries of more players.

During the period under review, the Group's advertising revenue continued to grow with the launch of the Golden Touch\* (點金) advertising bidding system which not only met the demand for promotion from high-value enterprises but also generated higher income for the Group.

*\* For identification purpose only*

On 9 January 2013, NetDragon Websoft Inc. (“NetDragon (BVI)”), a direct wholly owned subsidiary of the Company, awarded 6,114,500 ordinary shares of 91 Wireless Websoft Limited (“91 Wireless”) to certain employees of the Group.

On 9 and 10 January 2013, 91 Wireless issued the ordinary shares to NetDragon (BVI) and redeemable convertible preferred shares (“Preferred Share(s)”) to certain investors, details of which are as follows:

Name of other entities of the group or counterparties	Nature and consideration of the transaction	Conversion rights	Redemption rights	Completion Dates of	
				date of the transaction	announcement of the transaction
(1) NetDragon (BVI)	91 Wireless issued to NetDragon (BVI) 13,131,278 ordinary shares at a total consideration of USD25,131,201 pursuant to a subscription agreement dated 9 January 2013	—	—	9 January 2013	10 January 2013
(2) (i) Pacific Century Diversified Limited	91 Wireless issued to the New Series B Investors 7,016,778 Series B preferred Shares (the “Series B Preferred Shares”) at a total consideration of USD17,500,000 pursuant to a Series B Preferred Shares purchase agreement dated 10 January 2013	Series B Conversion Rights	91 Wireless has the right to redeem all Series B Preferred Shares at the applicable redemption price (being (i) USD1.2480499 for Series B Preferred Shares issued on or before 31 December 2012; and (ii) USD2.494022185 for Series B Preferred Shares issued on or after 1 January 2013) after receipt of written request signed by the holders of more than three-fourths of the Series B Preferred Shares at any time after the third anniversary of 9 December 2011	10 January 2013	11 January 2013
(ii) Grandwin Enterprises Limited					
(iii) An individual investor					
(collectively, “New Series B Investors”)					



On 21 March 2013, all the holders of the series A preferred shares (the “Series A Preferred Shares”) made a request to 91 Wireless that each issued and outstanding Preferred Share be converted into fully paid non-assessable ordinary shares at the conversion rate for each such Series A Preferred Shares and Series B Preferred Shares (the “Preferred Shares”) pursuant to the third amended and restated articles of association of 91 Wireless adopted by special resolution passed on 10 January 2013. All the holders of the Preferred Shares agreed the taking of the aforesaid actions by 91 Wireless.

In order to effect the conversion of the Preferred Shares, on 27 March 2013, 91 Wireless entered into a repurchase agreement between the Company and the holders of Series A Preferred Shares (the “Series A Repurchase Agreement”), they are IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P. (collectively known as the “IDG Investors”) and Stonewell Resources Limited, and a repurchase agreement with the holders of Series B Preferred Shares (the “Series B Repurchase Agreement”), they are Vertex Asia Investments Pte. Ltd, IP Cathay II, L.P., DT Capital China Growth Fund, L.P., NetDragon (BVI), IDG Investors, Sino Coast Developments Limited, Pacific Century Diversified Limited, Grandwin Enterprises Limited and an individual investor.

Further details of the Series A Repurchase Agreement and the Series B Repurchase Agreement are set forth in the announcement of the Company dated 28 March 2013.

### **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 2013, the Group’s overall staff headcount was 3,175, of which 1,775 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 fast development of the R&D, online and mobile game updates and software and application upgrades to accommodate the needs of the new players and satisfy the emerging market trends.

### **PROSPECTS AND OUTLOOK**

Looking forward, the Group plans to further enhance its game development capabilities and to train talented R&D personnel. Apart 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 lifespan of existing products, such that the Group’s revenue base can be maximized.

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 with substantial potential to further strengthen its leading position in the global online game industry.

For online games, 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. In addition to the MMORPGs, the Group will continue to research and develop various types of games to satisfy players with different demands in the market.

The Group will continue to capture the new high growth opportunities such as educational and SME software by expanding the existing team and strengthening the Group's commitment to research and development and sales and marketing of such high growth businesses.

## **Conclusion**

In the face of the intensifying competition in the online game industry and the overall slowdown in the growth 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 game development and operation capabilities 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 online games. In view of this, the Group devoted efforts 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 during the period under review. It carried 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 also helped optimize the cost structure of the Group and generate more profits from the future revenue growth.

**The proposed very substantial disposal of 91 Wireless, being an indirect non wholly-owned subsidiary of the Company, and its group companies (the “91 Wireless Group”) by way of merger and connected transaction**

On 15 July 2013, the Company, NetDragon Websoft Inc. (“**NetDragon BVI**”) and Baidu Holdings Limited signed a memorandum of understanding (the “**Memorandum of Undertaking**”) for the purposed disposal of the issued share capital of 91 Wireless which is primarily engaged in mobile Internet business, meaning that the Group’s development is going to move into another important milestone.

On 14 August 2013, (i) a merger agreement (the “**Merger Agreement**”) was entered into among 91 Wireless, Baidu (Hong Kong) Limited (“**Baidu HK**”) and Baidu (Hong Kong) Sub Limited (“**Merger Sub**”); and (ii) deeds of undertaking were entered into by the Company and NetDragon BVI and by the shareholders of 91 Wireless other than NetDragon BVI (the “**Other 91 Shareholders**”), respectively.

*The Merger Agreement*

Pursuant to the terms and subject to the conditions of the Merger Agreement, Merger Sub will merge with and into 91 Wireless (the “**Merger**”) at the time on which the Merger becomes effective as set out in the plan of merger as appended in the Merger Agreement in accordance with the Companies Law of the Cayman Islands (the “**Effective Time**”), with 91 Wireless surviving the Merger and becoming a wholly owned subsidiary of Baidu HK as a result of the Merger. The consideration for the Merger is US\$1,847.94 million (equivalent to approximately HK\$14,336.09 million).

As at the Effective Time, the Company will cease to hold any interest in 91 Wireless and each member of the 91 Wireless Group shall cease to be a subsidiary of the Company.

*ND Deed of Undertaking*

In contemplation of the Merger, the Company and NetDragon BVI have entered into a deed of undertaking on 14 August 2013 (the “**ND Deed of Undertaking**”), pursuant to which, among other things, the Company and NetDragon BVI have jointly and severally undertaken to Baidu HK and Merger Sub, subject to the terms and conditions of the ND Deed of Undertaking and the conditions to certain undertakings and obligations of the Company and NetDragon BVI under the ND Deed of Undertaking, to vote, or to cause the registered holder of the relevant 91 Wireless shares (that is NetDragon BVI) (the “**Relevant 91 Wireless Shares**”) to vote, in favor of the approval of the Merger Agreement and the transactions contemplated under the Merger Agreement at the extraordinary general meeting of 91 Wireless.

### *Deed of Undertaking of the Other 91 Shareholders*

In contemplation of the Merger, the Other 91 Shareholders have respectively entered into deeds of undertaking on 14 August 2013, pursuant to which, among other things, each of the Other 91 Shareholders has undertaken to Baidu HK and Merger Sub, subject to the terms and conditions therein, to vote, or to cause the register holder of their respective 91 Wireless shares to vote, in favor of the approval of the Merger Agreement and the transactions contemplated under the Merger Agreement at the extraordinary general meeting of 91 Wireless.

### *Baidu Undertaking*

Upon receipt of the ND Deed of Undertaking and the Deeds of Undertaking of the Other 91 Shareholders, Baidu HK has entered into the deed of undertaking (the “**Baidu Undertaking**”) on 14 August 2013, pursuant to which Baidu HK has undertaken to each of the Company, NetDragon BVI and the Other 91 Shareholders to perform the payment obligation of the Merger Agreement subject to the terms and conditions in the Merger Agreement.

For details of Memorandum of Undertaking, the Merger Agreement, the ND Deed of Undertaking, the Deeds of Undertaking of the Other 91 Shareholders, the Baidu Undertaking and the transactions contemplated thereunder, please refer to the Company’s announcements dated 15 July 2013 and 16 August 2013.

### **Update on the proposed spin-off and separate listing of 91 Wireless on the Growth Enterprise Market (the “GEM”) of the Stock Exchange**

As stated in the Company’s announcement dated 15 July 2013 and 16 August 2013, it is contemplated if the disposal of the 91 Wireless Group takes place, the proposed spin-off (the “**Proposed Spin-off**”) and the proposed listing of 91 Wireless on the GEM (the “**Proposed Listing**”) will not be effective. 91 Wireless shall forthwith terminate the Proposed Listing upon closing of the Merger Agreement. As the Merger Agreement is subject to a number of conditions precedent, there is no assurance as to whether and when (i) the Merger will take place and (ii) the Proposed Spin-off and the Proposed Listing will be effective. The Company will make further announcement(s) in relation to the Proposed Spin-off and Proposed Listing as and when appropriate in accordance with the Listing Rules.

## **Project in the Haixi Animation Creativity City (the “Project”)**

The Haixi Animation Creativity City is the project launched by the Haixi Creativity Valley in Changle. The Project officially commenced construction in 2008 and developed into an animation training base in 2009. Based on the animation training base, it is further expanded into the Project in the “Haixi Animation Creativity City”, covering an integrated industrial chain of animation creativity from research and development in animation, exchange, experience, animation derivatives to elite education. It currently has three phases in operation:

- I. “Phase 1 of Haixi Animation Creativity City”. It is the land occupied by the Group for exchange in research and development, and quality development. Currently it has been constructed into a training base for the Group, which is comprised of several main buildings such as the Group’s office building and Pentagonal Building\* (五角大樓).
- II. “Phase 2 of Haixi Animation Creativity City”. It is the Group’s core animation research center, of which the Heavenly Building\* (天禧樓), a landmark building, was completed in August 2001 and other buildings are under tight construction. Currently, Phase 2 has entered a critical stage. Water and electricity installment, landscaping in the park are speeding up and the logistical ancillary facilities such as the staff quarter will be put into use once the decoration is completed.
- III. “Phase 3 of Haixi Animation Creativity City”. It is the project for animation application in game terminals (the “AI Project”) serving as the Group’s research and development centre for mobile intelligent terminals, which is emerging but promising. Currently, the Group is processing the land supply procedure.

In addition, the Group is planning to establish a new Changle campus in cooperation with Fuzhou Software Technology Vocational College. Currently project planning and site selection are completed. The new campus will form an industry cluster effect together with the three projects in the park by the way of “learning supported by production, research facilitated by production, learning combined with production” to boost the emergence and development of Haixi animation creation industry.

As at 30 June 2013, the Group had capital commitments in relation to the development of the Project of approximately RMB415.3 million, of which the Group had paid up approximately RMB290.7 million.

*\* For identification purpose only*

## **Other Events**

The Group has 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 the staff. The Group has successfully enhanced the mobility of staff and maintained the growth momentum. This project has also lowered total labour costs as shown in the results and further stimulated staff morale and sense of responsibility.

To cope with the strengthening of the game 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 will help to improve efficiency of operation, project management and office administrative processes.

## **INTERIM DIVIDEND**

On 23 August 2013, the Board has resolved to declare an interim dividend of HKD0.20 per share for the six months ended 30 June 2013 (2012: HKD0.15 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 9 September 2013. It is expected that the interim dividend will be distributed on or about 19 September 2013.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 9 September 2013 to Wednesday, 11 September 2013, 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 2013, 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 Friday, 6 September 2013.

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

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which

were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

<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> <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	249,770,033(L)	49.16%
Liu Dejian <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian <i>(Note 3)</i>	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	249,570,033(L)	49.12%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(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 controlled corporations	248,099,033(L)	48.83%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(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	13,190,019(L)	2.59%

<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> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
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	897,019(L)	0.17%
Liu Sai Keung, Thomas <i>(Note 5)</i>	The Company	Beneficial owner	917,019(L)	0.18%

*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 95.36% of the issued share capital of DJM Holding Ltd., which in turn is interested in 36.62% 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 5.18% of the issued share capital of the Company.

Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 36.62% and 3.74%, 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 2.90% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 48.45% 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 share options and 1,400,000 share options 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 Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) (“NetDragon (Fujian)”), which in turn is interested in 99.00% of the registered capital of Shanghai Tiankun Digital Technology Limited\* (上海天坤數碼科技有限公司) (“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 2.18% of the issued share capital of the Company. Chen Hongzhan had been awarded 1,600,000 share options of the Company on 7 December 2009 and granted 284,000 share options of the Company on 22 July 2011. Chen Hongzhan is deemed to be interested in 2.18% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited and his direct beneficial interest in the issued share capital of the Company.
5. On 22 July 2011, the Company granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sui Keung, Thomas. On 23 April 2012, the Company again granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2013, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

\* *For identification purpose only*

**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 2013, 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 held or amount of registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	36.62%
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)	15.39%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320(L)	15.39%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095(L)	14.44%
Richmedia Holdings Limited <i>(Note 3)</i>	The Company	Beneficial owner	26,344,800(L)	5.18%
IDG Investors <i>(Note 4)</i>	91 Wireless	Beneficial owner	14,582,750(L)	10.39%
NetDragon (BVI)	91 Wireless	Beneficial owner	80,571,528(L)	57.41%

*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 2.15%, 10.29%, 2.10% and 0.96% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:
  - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Ho Chi Sing.
  - b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.
  - c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.
3. Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 5.18% of the issued share capital of the Company.
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 8.00%, 1.64% and 0.75%, respectively, in 91 Wireless who are deemed to be acting in concert to acquire interests in 91 Wireless, and its respective controlling entities. The controlling structure of each of the above partnerships is stated in *Note 2*.

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 2013.

## 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 existing share option scheme. Details of the share options outstanding and movement during the period ended 30 June 2013 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at 1	Number of share options			As at 30
			January 2013	Granted	Exercised	Lapsed	June 2013
<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	—	71,000	—	213,000
Chen Hongzhan	07.12.2009	4.33	1,600,000	—	1,280,000	—	320,000
	22.07.2011	4.60	284,000	—	71,000	—	213,000
<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	300,000	—	100,000	—	200,000
	23.04.2012	5.74	400,000	—	100,000	—	300,000
Liu Sai Keung, Thomas	22.07.2011	4.60	400,000	—	200,000	—	200,000
	23.04.2012	5.74	400,000	—	100,000	—	300,000
<b>Others</b>							
Employees	07.12.2009	4.33	2,200,000	—	—	—	2,200,000
	28.04.2011	4.80	11,867,687	—	1,623,775	322,750	9,921,162
	22.07.2011	4.60	1,087,780	—	80,450	48,000	959,330
	23.04.2012	5.74	1,978,000	—	69,175	135,500	1,773,325
	06.07.2012	6.53	735,250	—	—	46,000	689,250
	12.09.2012	7.20	117,500	—	—	—	117,500
	16.01.2013	11.164	—	789,500	—	43,500	746,000
Total			<u>26,022,217</u>	<u>789,500</u>	<u>3,695,400</u>	<u>595,750</u>	<u>22,520,567</u>

*Notes:*

1. On 16 January 2013, 789,500 share options were granted to the employees of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 16 January 2013 (the trading day on the grant of the share options) was HKD10.98.
2. During the period under review, 1,922,000 share options were exercised by Directors of the Company.

## **SHARE AWARD SCHEME**

### *The Company*

On 2 September 2008 (the "NetDragon Adoption Date"), the Board approved and adopted the share award scheme (the "NetDragon Share Award Scheme") in which selected employees of the Group are entitled to participate. Unless early terminated by the Board, the NetDragon Share Award Scheme shall be valid and effective for a term of ten years commencing on the NetDragon Adoption Date. The Board shall not grant any award of shares which would result in the nominal value of shares which are the subject of awards granted by the Board under the NetDragon Share Award Scheme representing in aggregate over 10% of the issued capital of the Company from time to time.

Pursuant to the rules of the NetDragon Share Award Scheme, the Group has signed an agreement with Bank of Communications Trustee Limited (the "Trustee"), for the purpose of administering the NetDragon Share Award Scheme and holding the awarded shares before they are vested.

As at 30 June 2013, 1,269,603 awarded shares granted to a number of selected participants were outstanding. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, 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.

Among the 1,269,603 awarded shares granted, a total of 472,848 awarded shares were granted to the Directors.

Subject to the acceptance by the relevant selected employees, such awarded shares may be held by the selected employees in their own names or such nominees, including any trustees, as designated by the selected employees.

## ***91 Wireless***

On 28 December 2011, 91 Wireless adopted a share award scheme (the “91 Share Award Scheme”) in which selected participants of 91 Wireless and/or its subsidiaries are entitled to participate. Subject to early termination by the board of directors of 91 Wireless, 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 Wireless from time to time.

Pursuant to the rules of the 91 Share Award Scheme, 91 Wireless 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 2013, 9,615,000 awarded shares (among the 2,981,300 shares awarded on 8 February 2012, 117,500 shares were returned shares pursuant to the rules of the 91 Share Award Scheme and re-granted on 31 December 2012) 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. Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) a confirmation from 91 Wireless that all vesting conditions having been fulfilled, the award shares will be transferred to the selected participants at nil consideration upon vesting.

Among the 9,615,000 awarded shares granted, a total of 1,570,000 awarded shares were granted to the directors of 91 Wireless and the Directors of the Company.

Subject to the acceptance by the selected participants, such awarded shares may be held by the selected participants in their own names or such nominees, including any trustees, as designated by the selected participants.

### ***Best Assistant Education Online Limited (“Best Assistant”)***

On 7 August 2012, Best Assistant adopted a share award scheme (the “Best Assistant Share Award Scheme”) in which selected participants of Best Assistant and/or its subsidiaries are entitled to participate. Subject to early termination by the board of directors of Best Assistant, the Best Assistant Share Award Scheme shall be valid and effective for a term of ten years commencing on 7 August 2012. The maximum number of shares which may be granted to the participants under the Best Assistant Share Award Scheme shall not exceed ten percent (10%) of the total issued share capital of Best Assistant from time to time or such number of shares as determined by the board of directors of Best Assistant.

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

Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) confirmation from Best Assistant that all vesting conditions having been fulfilled, the awarded shares will be transferred to the selected participants at nil consideration upon vesting.

As at 30 June 2013, no awarded shares were granted under the Best Assistant Share Award Scheme.

### **COMPETITION AND CONFLICT OF INTERESTS**

None of the Directors or any of their respective associates (as defined under the Listing Rules) has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this announcement.

### **INTERNAL CONTROLS**

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

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

In the opinion of the Directors, the Company has 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 Director, Mr. Chao Guowei, Charles and the non-executive Director, Mr. Lin Dongliang did not attend the annual general meeting of the Company held on 24 May 2013.

## **MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the six months ended 30 June 2013.

## **AUDIT COMMITTEE**

The Company established the audit committee (the “Audit Committee”) on 15 October 2007 which has adopted written terms of reference in compliance with the Listing Rules. 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 reviews the quarterly, interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continued connected transactions and connected transactions relating to structure contracts, other contracts and control documents of the Group.

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



The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's interim results for the six months ended 30 June 2013 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 June 2013, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 23 August 2013

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