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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)

**THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS AND NINE MONTHS ENDED
30 SEPTEMBER 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 three months and nine months ended 30 September 2013. The third quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the “Auditor”) of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

RESULTS

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2013 (Unaudited) RMB'000	2012 (Unaudited and restated) RMB'000	2013 (Unaudited) RMB'000	2012 (Unaudited and restated) RMB'000
Continuing operations					
Revenue	4	219,364	204,067	655,517	596,640
Cost of revenue		<u>(19,837)</u>	<u>(12,505)</u>	<u>(58,356)</u>	<u>(36,693)</u>
Gross profit		199,527	191,562	597,161	559,947
Other income and gains	4	12,476	16,575	30,293	31,660
Selling and marketing expenses		(27,935)	(29,199)	(74,508)	(87,967)
Administrative expenses		(87,611)	(45,157)	(225,261)	(142,362)
Development costs		(45,349)	(33,797)	(118,388)	(107,698)
Other expenses		(1,259)	(5,473)	(4,756)	(20,298)
Share of losses of associates		<u>(41)</u>	<u>(173)</u>	<u>(24)</u>	<u>(439)</u>
Operating profit		49,808	94,338	204,517	232,843
Interest income on pledged bank deposit		222	2,600	4,043	2,600
Exchange (loss) gain on pledged bank deposit and secured bank borrowing		(1,769)	6,827	128	6,211
Net loss on derivative financial instrument		—	(3,085)	(2,359)	(6,184)
Finance costs		<u>(326)</u>	<u>(2,310)</u>	<u>(3,683)</u>	<u>(2,310)</u>
Profit before taxation		47,935	98,370	202,646	233,160
Taxation	6	<u>(10,974)</u>	<u>(9,892)</u>	<u>(33,507)</u>	<u>(30,087)</u>
Profit for the period from continuing operations	9	36,961	88,478	169,139	203,073
Discontinued operations					
Profit (loss) for the period from discontinued operations	7	<u>105,586</u>	<u>6,807</u>	<u>244,078</u>	<u>(6,930)</u>
Profit for the period		142,547	95,285	413,217	196,143
Other comprehensive (expense) income:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations		<u>(167)</u>	<u>59</u>	<u>(792)</u>	<u>131</u>
Total comprehensive income for the period		<u>142,380</u>	<u>95,344</u>	<u>412,425</u>	<u>196,274</u>

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	<i>(Unaudited)</i>	<i>(Unaudited and restated)</i>	<i>(Unaudited)</i>	<i>(Unaudited and restated)</i>
<i>NOTE</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period attributable to:				
- Owners of the Company	97,230	95,399	333,631	196,201
- Non-controlling interests	45,317	(114)	79,586	(58)
	<u>142,547</u>	<u>95,285</u>	<u>413,217</u>	<u>196,143</u>
Total comprehensive income attributable to:				
- Owners of the Company	97,063	95,458	332,839	196,332
- Non-controlling interests	45,317	(114)	79,586	(58)
	<u>142,380</u>	<u>95,344</u>	<u>412,425</u>	<u>196,274</u>
	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share				
From continuing and discontinued operations				
- Basic	19.14	18.95	65.97	38.49
- Diluted	19.02	18.87	59.75	38.25
From continuing operations				
- Basic	7.27	17.60	33.45	39.85
- Diluted	7.22	17.53	32.86	39.60

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2013

		30 September 2013 <i>(Unaudited)</i>	31 December 2012 <i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	12	447,077	345,415
Prepaid lease payments	13	187,311	139,678
Investment property	13	15,857	16,217
Intangible assets		1,311	2,626
Interests in associates		1,366	11,793
Interest in a joint venture		—	18,015
Available-for-sale investments		5,000	5,000
Loan receivables		16,404	9,969
Deposits made for property, plant and equipment		26,898	—
Goodwill		12,534	12,534
Deferred tax assets		54	1,586
		713,812	562,833
Current assets			
Prepaid lease payments		2,583	2,902
Loan receivables		1,308	3,143
Trade receivables	14	22,260	61,427
Other receivables, prepayments and deposits		58,876	72,101
Held for trading investment		—	4,939
Amounts due from related companies		4,069	3,637
Amount due from a joint venture		3	3,060
Pledged bank deposit	16	108,268	194,405
Bank deposits		415,000	394,081
Bank balances and cash		800,739	1,142,825
		1,413,106	1,882,520
Assets classified as held for sale	8	1,186,586	—
		2,599,692	1,882,520

		30 September 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
	<i>NOTES</i>		
Current liabilities			
Trade and other payables	15	443,347	222,137
Deferred income		25,740	24,778
Amount due to a related company		—	121
Amount due to an associate		—	5,600
Secured bank borrowing	16	110,036	183,595
Other financial liability		—	10,679
Income tax payable		<u>25,422</u>	<u>66,355</u>
		604,545	513,265
Liabilities associated with assets classified as held for sale	8	<u>368,486</u>	<u>—</u>
		973,031	513,265
Net current assets		<u>1,626,661</u>	<u>1,369,255</u>
Total assets less current liabilities		<u>2,340,473</u>	<u>1,932,088</u>
Non-current liabilities			
Redeemable convertible preferred shares	17	—	195,115
Conversion option derivative liability	17	—	314,829
Deferred tax liabilities		<u>—</u>	<u>6,141</u>
		<u>—</u>	<u>516,085</u>
Net assets		<u>2,340,473</u>	<u>1,416,003</u>
Capital and reserves			
Share capital		37,609	37,532
Share premium and reserves		<u>1,893,480</u>	<u>1,356,317</u>
Equity attributable to owners of the Company		1,931,089	1,393,849
Non-controlling interests		<u>409,384</u>	<u>22,154</u>
		<u>2,340,473</u>	<u>1,416,003</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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		Retained profits	Total	Non-controlling interests	Total equity
			reserve	reserve							reserve	reserve				
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	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	—	—	—	—	—	—	—	—	—	—	—	196,201	196,201	(58)	196,143	
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	131	—	131	—	131	
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	131	196,201	196,332	(58)	196,274	
Issue of shares by subsidiaries	—	—	—	—	99	—	—	—	—	—	—	—	99	18,643	18,742	
Repurchase and cancellation of shares	(716)	(45,057)	716	—	—	—	—	—	—	—	—	(716)	(45,773)	—	(45,773)	
Shares issued upon exercise of share options	1	88	—	—	—	—	—	—	—	(27)	—	—	62	—	62	
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	9,191	—	—	9,191	—	9,191	
Recognition of equity-settled share-based payments granted by a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	7,528	7,528	
Partial disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	132	132	
Final dividend for 2011 paid	—	—	—	—	—	—	(50,062)	—	—	—	—	—	(50,062)	—	(50,062)	
Interim dividend for 2012 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(62,927)	(62,927)	—	(62,927)	
At 30 September 2012 (unaudited)	37,511	1,068,036	3,717	2,209	10,045	140,883	—	673	(7,552)	28,218	(57,984)	320,518	1,546,274	25,787	1,572,061	
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	—	—	—	—	—	—	—	—	—	—	—	333,631	333,631	79,586	413,217	
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(792)	—	(792)	—	(792)	
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	—	(792)	333,631	332,839	79,586	412,425	
Repurchase and cancellation of shares	(422)	(82,598)	422	—	—	—	—	—	—	—	—	(422)	(83,020)	—	(83,020)	
Shares issued upon exercise of share options	499	44,240	—	—	—	—	—	—	—	(15,299)	—	—	29,440	—	29,440	
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	14,436	—	—	14,436	—	14,436	
Recognition of equity-settled share-based payments granted by subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	113,991	113,991	
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 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(81,329)	(81,329)	—	(81,329)	
Acquisition of additional equity interests from non-controlling shareholders of a subsidiary	—	—	—	(1,049)	—	—	—	—	—	—	—	—	(1,049)	1,049	—	
At 30 September 2013 (unaudited)	37,609	1,031,486	4,139	409,421	10,045	172,895	—	673	(5,780)	27,277	(58,971)	302,295	1,931,089	409,384	2,340,473	

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013**

	Nine months ended 30 September	
	2013	2012
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
NET CASH FROM OPERATING ACTIVITIES	<u>999,066</u>	<u>238,114</u>
INVESTING ACTIVITIES		
Acquisitions of interest in an associate	—	(500)
Purchase of property, plant and equipment	(143,167)	(87,267)
Prepaid lease payments made	(60,267)	(36,908)
Proceeds from disposal of prepaid lease payments	11,760	—
Proceeds from return of capital from an associate	5,600	—
Payment for deposits of property, plant and equipment	(26,898)	—
Placement of bank deposits	(316,050)	(183,358)
Placement of pledged bank deposit	(108,268)	(191,387)
Withdrawal of pledged bank deposit	182,149	—
Withdrawal of bank deposits	291,139	50,000
Other investing cash flows	<u>18,755</u>	<u>7,010</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(145,247)</u>	<u>(442,410)</u>
FINANCING ACTIVITIES		
Proceeds from issue of redeemable convertible preferred shares	109,888	—
Proceeds from shares issued upon exercise of share options	29,440	—
Dividends paid	(163,667)	(112,989)
Payment for repurchase of shares	(83,020)	(45,773)
Proceeds from issue of shares by a subsidiary to non-controlling shareholders	—	18,643
New bank borrowing raised	110,036	185,174
Repayment of bank borrowing	(179,660)	—
Repayment of amount due to an associate	(5,600)	—
Other financing activities	<u>4,848</u>	<u>356</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(177,735)</u>	<u>45,411</u>

	Nine months ended	
	30 September	
	2013	2012
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	676,084	(158,885)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,142,825	1,428,928
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(1,169)</u>	<u>1,246</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>1,817,740</u>	<u>1,271,289</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 amounts included in the condensed consolidated financial statements have been computed in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) applicable to interim periods. However, it does not contain sufficient information to constitute a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the HKICPA.

During the period, the Group’s mobile Internet segment has been classified as discontinued operations as a result of the disposal transaction detailed in note 7. Accordingly, the comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income and certain explanatory notes have been restated.

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 nine months ended 30 September 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 current interim period, the Group has adopted the following accounting policy:

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

In addition, in the current interim period, the Group has applied, for the first time, certain new and revised HKFRSs issued by the 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

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	<i>(Unaudited and restated)</i>		<i>(Unaudited and restated)</i>	
Continuing operations	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue				
Online game revenue	<u>219,364</u>	<u>204,067</u>	<u>655,517</u>	<u>596,640</u>
Other income and gains				
Business tax refunded	—	—	—	1,080
Gain on fair value changes of investment property	—	163	—	163
Government grants <i>(Note)</i>	4,040	130	13,913	473
Interest income	7,444	14,397	13,785	26,784
Net gain on held for trading investments	—	—	229	—
Rental income, net of negligible outgoing expenses	118	116	364	318
Others	<u>874</u>	<u>1,769</u>	<u>2,002</u>	<u>2,842</u>
	<u>12,476</u>	<u>16,575</u>	<u>30,293</u>	<u>31,660</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. The Group has only one operating segment (i.e. online game development and operation and marketing of those online games) from its continuing operations.

During the period, the Group's mobile Internet business segment has been classified as discontinued operations upon the proposed disposal of 91 Wireless Websoft Limited and its subsidiaries ("91 Group"), which are described in more details in note 7. Accordingly, the comparative information has been represented to present the results of the mobile Internet business as discontinued operations to conform with the current period's presentation.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>219,364</u>	<u>204,067</u>	<u>655,517</u>	<u>596,640</u>
Segment profit	93,662	86,780	324,479	265,330
Unallocated income and gains	8,056	24,971	15,220	39,411
Unallocated expenses	(53,742)	(13,208)	(137,029)	(71,142)
Share of losses of associates	<u>(41)</u>	<u>(173)</u>	<u>(24)</u>	<u>(439)</u>
Profit before taxation	<u>47,935</u>	<u>98,370</u>	<u>202,646</u>	<u>233,160</u>

The accounting policies of the operating segment are the same as the Group's accounting policies. Segment profit represents the profit earned by 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, income tax expenses, and unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	30 September	31 December
	2013	2012
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Assets relating to continuing operations:		
- online game	1,730,578	1,750,584
- mobile Internet business	—	420,259
Assets relating to discontinued operations:		
- mobile Internet business	<u>1,186,586</u>	<u>—</u>
Unallocated	<u>2,917,164</u>	2,170,843
	<u>396,340</u>	<u>274,510</u>
	<u>3,313,504</u>	<u>2,445,353</u>

6. TAXATION

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	<i>(Unaudited and restated)</i>		<i>(Unaudited and restated)</i>	
Continuing operations	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The charge comprises:				
Hong Kong Profits Tax	1,445	923	4,826	922
PRC Enterprise Income Tax (“EIT”)	9,464	8,895	28,524	28,996
Taxation in other jurisdiction	65	74	157	169
	<u>10,974</u>	<u>9,892</u>	<u>33,507</u>	<u>30,087</u>

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

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

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

7. DISPOSAL OF SUBSIDIARIES (DISCONTINUED OPERATIONS)

On 14 August 2013, NetDragon Websoft Inc. (“NetDragon BVI”), a wholly owned subsidiary of the Company and Baidu Holdings Limited (“Baidu”), an independent third party, entered into a sale and purchase agreement (“S&P Agreement”) pursuant to which NetDragon BVI has conditionally agreed to sell, and Baidu have conditionally agreed to purchase the entire equity interest of 91 Group (the “Disposal”). Under such agreement, the Group shall be entitled to receive an aggregate consideration of United States dollar (“USD”) 1.09 billion (equivalent to approximately RMB6,664 million) before a special dividend of USD29.89 million (equivalent to approximately RMB183 million). 91 Group carries out all of the Group’s mobile Internet business and the transaction has given rise to the mobile Internet business being classified as discontinued operations for the Group. The assets and liabilities attributable to mobile Internet business have been classified as disposal group held for sale and are presented separately in the condensed consolidated statement of financial position (Note 8). The Disposal was completed on 1 October 2013.

The profit (loss) for the period from the discontinued operations is analysed as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Profit (loss) for the period	<u>105,586</u>	<u>6,807</u>	<u>244,078</u>	<u>(6,930)</u>
Attributable to:				
- Owners of the Company	60,304	6,807	164,461	(6,930)
- Non-controlling interests	<u>45,282</u>	<u>—</u>	<u>79,617</u>	<u>—</u>
	<u>105,586</u>	<u>6,807</u>	<u>244,078</u>	<u>(6,930)</u>

The results of the mobile Internet business for the current and prior periods were as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	261,500	86,077	608,188	180,663
Cost of revenue	<u>(29,439)</u>	<u>(24,853)</u>	<u>(78,212)</u>	<u>(45,449)</u>
Gross profit	232,061	61,224	529,976	135,214
Other income and gains	2,390	747	6,976	829
Selling and marketing expenses	(33,558)	(8,189)	(61,604)	(19,986)
Administrative expenses	(25,201)	(6,407)	(74,989)	(22,383)
Development costs	(20,964)	(12,434)	(57,873)	(34,483)
Other expenses	(4,899)	(2,131)	(15,179)	(4,014)
Share of losses of associates	(216)	(190)	(937)	(582)
Share of (loss) profit of a joint venture	<u>(122)</u>	<u>—</u>	<u>796</u>	<u>—</u>
Operating profit	149,491	32,620	327,166	54,595

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Exchange (loss) gain on redeemable convertible preferred shares	—	(593)	1,133	(1,400)
Net (loss) gain on derivative financial instruments	—	(12,389)	32,704	(32,629)
Finance costs	—	(4,511)	(10,875)	(13,559)
Profit before taxation	149,491	15,127	350,128	7,007
Taxation	(43,905)	(8,320)	(106,050)	(13,937)
Profit (loss) for the period from discontinued operations	<u>105,586</u>	<u>6,807</u>	<u>244,078</u>	<u>(6,930)</u>

8. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As described in note 7, NetDragon BVI entered into a S&P Agreement in relation to the disposal of its entire equity interest of 91 Group, which carries out all of the Group's mobile Internet business. The assets and liabilities of the mobile Internet business as at 30 September 2013, which have been presented separately in the condensed consolidated statement of financial position are as follows:

	30 September 2013 (Unaudited) RMB'000
Property, plant and equipment	5,858
Interests in associates	—
Interest in a joint venture	18,811
Deferred tax assets	8,368
Trade receivables (Note a)	101,049
Other receivables, prepayments and deposits	35,499
Bank balances and cash	<u>1,017,001</u>
Total assets classified as held for sale	<u>1,186,586</u>
Trade payables (Note b)	16,559
Other payables	242,812
Deferred income	4,804
Amount due to a related company	1,136
Amount due to a joint venture	348
Income tax payable	75,132
Deferred tax liabilities	<u>27,695</u>
Total liabilities associated with assets classified as held for sale	<u>368,486</u>

Notes:

- (a) 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.

	30 September 2013 <i>(Unaudited)</i> RMB'000
0 - 30 days	52,628
31 - 60 days	26,834
61 - 90 days	7,813
Over 90 days	<u>13,774</u>
Total	<u><u>101,049</u></u>

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

	30 September 2013 <i>(Unaudited)</i> RMB'000
0 - 30 days	6,261
31 - 60 days	3,802
61 - 90 days	1,530
Over 90 days	<u>4,966</u>
Total	<u><u>16,559</u></u>

9. PROFIT FOR THE PERIOD

	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	<i>(Unaudited and restated)</i>		<i>(Unaudited and restated)</i>	
Continuing operations	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):				
Staff costs:				
Directors' emoluments	1,726	1,551	6,156	4,367
Other staff costs				
Salaries and other benefits	61,048	49,373	177,156	160,273
Contributions to retirement benefits schemes	5,766	5,291	16,153	14,298
Share-based payments expense	<u>32,424</u>	<u>2,511</u>	<u>85,924</u>	<u>6,865</u>
	100,964	58,726	285,389	185,803
Allowances on trade receivables	—	2,641	—	2,641
Amortisation of intangible assets (included in cost of revenue)	400	642	1,217	1,867
Amortisation of intangible assets (included in other expenses)	—	19	—	1,387
Release of prepaid lease payments (included in administrative expenses)	464	367	1,193	1,096
Depreciation of property, plant and equipment	10,702	5,083	33,180	17,800
Operating lease rentals in respect of:				
- rented premises	2,520	4,013	7,310	12,067
- computer equipment	7,906	8,948	24,571	25,060
Net foreign exchange (gain) loss	(212)	(8,460)	1,715	(7,319)
Write off of intangible assets (included in other expenses)	52	—	52	2,036
Loss on disposal of property, plant and equipment	<u>5</u>	<u>75</u>	<u>179</u>	<u>75</u>

10. DIVIDENDS

On 10 June 2013, a dividend of HKD0.20 per share (2012: HKD0.12 per share) was paid to shareholders as the final dividend for 2012. The aggregate amount of the final dividend paid in current interim period amounted to approximately RMB82,338,000 (2012: RMB50,062,000).

Interim dividend of HKD0.20 per share for the six months ended 30 June 2013 (six months ended 30 June 2012: HKD0.15 per share), amounting to RMB81,329,000 (six months ended 30 June 2012: RMB62,927,000) in aggregate, had been approved by the Directors of the Company at the Board meeting on 23 August 2013 and was paid on 19 September 2013.

The Directors of the Company do not recommend the payment of an interim dividend for the three months ended 30 September 2013 (three months ended 30 September 2012: Nil).

11. EARNINGS PER SHARE

From continuing and discontinued operations

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

	Three months ended 30 September		Nine months ended 30 September	
	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000	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	97,230	95,399	333,631	196,201
Effect of dilutive potential ordinary shares				
- adjustment to the share of profit of subsidiaries based on dilution of their earnings per share (Note)	—	—	(26,009)	—
Earnings for the purpose of diluted earnings per share	<u>97,230</u>	<u>95,399</u>	<u>307,622</u>	<u>196,201</u>

	Number of shares			
	Three months ended		Nine months ended	
	30 September		30 September	
	2013	2012	2013	2012
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	'000	'000	'000	'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)	507,868	503,490	505,752	509,797
Effect of dilutive potential shares from the Company's share option scheme	<u>3,421</u>	<u>1,963</u>	<u>9,095</u>	<u>3,183</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>511,289</u>	<u>505,453</u>	<u>514,847</u>	<u>512,980</u>

Note: The computation of diluted earnings per share for the three months and nine months periods ended 30 September 2012 had not taken into account the effect of share awards and redeemable convertible preferred shares issued by 91 Wireless Websoft Limited since it was anti-dilutive.

From continuing operations

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

	Three months ended 30 September		Nine months ended 30 September	
	2013 <i>(Unaudited)</i> RMB'000	2012 <i>(Unaudited and restated)</i> RMB'000	2013 <i>(Unaudited)</i> RMB'000	2012 <i>(Unaudited and restated)</i> RMB'000
Earnings for the purpose of basic earnings per share				
Profit for the period attributable to the owners of the Company	97,230	95,399	333,631	196,201
Less: profit (loss) for the period from discontinued operations attributable to the owners of the Company	<u>60,304</u>	<u>6,807</u>	<u>164,461</u>	<u>(6,930)</u>
Earnings for the purposes of calculating basic and diluted earnings per share from continuing operations	<u>36,926</u>	<u>88,592</u>	<u>169,170</u>	<u>203,131</u>

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

From discontinued operations

The basic and diluted earnings per share from discontinued operations attributable to the owners of the Company are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2013 RMB cents	2012 RMB cents	2013 RMB cents	2012 RMB cents
Earnings (loss) per share				
- Basic	11.87	1.35	32.52	(1.36)
- Diluted	<u>11.80</u>	<u>1.34</u>	<u>26.89</u>	<u>(1.36)</u>

Basic and diluted earnings per share from discontinued operations for the three months and nine months ended 30 September 2013 are calculated based on the profit attributable to the owners of the Company from discontinued operations of RMB60,304,000 and RMB164,461,000 for the three months and nine months ended 30 September 2013, respectively and the denominators detailed above for both basic and diluted earnings per share from continuing operations.

Basic and diluted earnings (loss) per share from discontinued operations for the three months and nine months ended 30 September 2012 are calculated based on the profit (loss) attributable to the owners of the Company from discontinued operations of RMB6,807,000 and (RMB6,930,000) for the three months and nine months ended 30 September 2012, respectively and the denominators detailed above for both basic and diluted earnings per share from continuing operations.

12. PROPERTY, PLANT AND EQUIPMENT

During the nine-month period ended 30 September 2013, the Group spent RMB143,167,000 (nine-month period ended 30 September 2012: RMB87,267,000) for the acquisition and additions of property, plant and equipment to expand its operations which mainly included RMB34,507,000 for the nine-month ended 30 September 2013 (nine-month ended 30 September 2012: RMB32,027,000) in office and computer equipment and RMB97,891,000 for the nine-month ended 30 September 2013 (nine-month ended 30 September 2012: RMB50,321,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

13. PREPAID LEASE PAYMENTS/INVESTMENT PROPERTY

During the nine-month period ended 30 September 2013, the Group disposed the prepaid lease payment of approximately RMB11,760,000 with the same amount of consideration and spent approximately RMB60,267,000 (nine-month period ended 30 September 2012: RMB55,958,000) for the acquisition of prepaid lease payment to expand its office buildings located in Fuzhou. Among the RMB55,958,000 addition of prepaid lease payments during the period ended 30 September 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, RMB36,908,000 was paid during the nine-month period ended 30 September 2012. The Group is in the process of obtaining the land use right certificate.

The Group's investment property as at 30 September 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 with reference to recent market prices for similar properties in the same locations and conditions. There is no significant changes in fair value between 30 September 2013 and 31 December 2012 (nine-month ended 30 September 2012: Increase in fair value of approximately RMB163,000).

14. 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.

	30 September 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
0 - 30 days	11,502	38,519
31 - 60 days	3,796	12,753
61 - 90 days	2,626	4,252
Over 90 days	<u>4,336</u>	<u>5,903</u>
Total	<u><u>22,260</u></u>	<u><u>61,427</u></u>

15. TRADE AND OTHER PAYABLES

	30 September 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Trade payables	10,433	13,679
Accrued staff costs	54,933	69,213
Cooperation fee payable	—	48,791
Receipt in advance	27,319	20,717
Deposit received on disposal of 91 Group (<i>Note</i>)	307,400	—
Other payables and accruals	<u>43,262</u>	<u>69,737</u>
	<u><u>443,347</u></u>	<u><u>222,137</u></u>

Note: The deposit received represents USD50 million (equivalent to approximately RMB307 million) received from Baidu as a deposit in related to purchase the entire equity interest of 91 Group. Further details of the Disposal are set out in note 7.

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

	30 September 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
0 - 90 days	9,885	11,484
91 - 180 days	163	1,330
181 - 365 days	97	44
Over 365 days	<u>288</u>	<u>821</u>
Total	<u>10,433</u>	<u>13,679</u>

16. PLEDGED BANK DEPOSIT/SECURED BANK BORROWING

During the nine-month period ended 30 September 2013, the Group obtained new bank borrowing amounting to RMB110,036,000. The secured bank borrowing is denominated in Australian dollar (“AUD”), carries interest rate of 3.838% per annum and is repayable on 5 September 2014. The borrowing is secured by the pledged bank deposit of RMB108,268,000 which is denominated in USD.

The secured bank borrowing as at 31 December 2012, which was denominated in HKD at interest rate of 4.14% per annum, was fully repaid on 13 June 2013. The borrowing was secured by the pledged bank deposit which was denominated in Euros and was fully released upon the repayment of bank borrowing.

17. 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 USD0.0001 each at an aggregate issue price of USD3,999,840 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 USD0.0001 each at an aggregate issue price of USD20,000,000 (equivalent to approximately RMB126,018,000) to Vertex Asia Growth Ltd., IP Cathay II, L.P. and DT Capital China Growth Fund, L.P. on 15 December 2011 and 30 December 2011. 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 USD0.0001 each at an aggregate issue price of USD2,000,000 (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 USD0.0001 each to independent third parties, Pacific Century Diversified Limited, Grandwin Enterprises Limited and an individual investor at an aggregate issue price of USD17,500,000 (equivalent to approximately RMB109,888,000). Both series A and series B redeemable convertible preferred shares are denominated in USD. 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. The percentage of equity interest in 91 Wireless Websoft Limited held by the Group has been decreased from 88.78% 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:

	Liability component RMB'000	Conversion option and other derivatives RMB'000
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 September 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

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

Series B redeemable convertible preferred shares

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

Notes:

- (i) risk-free interest rate was used by reference to the United States Treasury Bond Rate at the valuation date; and
- (ii) expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of the comparable companies.

The fair values were determined by the directors with reference to valuation report carried out by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group.

18. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

During the nine-month period ended 30 September 2013, options were granted on 16 January 2013. Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Outstanding at 30 September 2013
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:

Date of grant	Granted during period	Forfeited during period	Outstanding at 30 September 2013
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	<u>2.46%</u>

Expected volatility was determined with 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

	Number of Share options
Outstanding as at 1 January 2013	26,022,217
Granted during the period	789,500
Forfeited during the period	(1,137,125)
Exercised during the period	<u>(8,074,880)</u>
Outstanding as at 30 September 2013	<u>17,599,712</u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD16.97.

The Group recognised the total expenses of approximately RMB2,567,000 and RMB7,581,000 for the three months and nine months ended 30 September 2013, respectively (three months and nine months ended 30 September 2012: RMB3,399,000 and RMB9,161,000, respectively) 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 RMB1,365,000 and RMB6,855,000 for the three months and nine months ended 30 September 2013, respectively (three months and nine months ended 30 September 2012: approximately RMB10,000 and RMB30,000, respectively) in relation to share awards.

317,397 share awards were vested and released during the nine months ended 30 September 2013 (nine months ended 30 September 2012: Nil). The number of share awards outstanding at 30 September 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 16 September 2013, the management has agreed with the eligible participants who were conferred the rights of the 91 Award on 8 February 2012 and 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:

Date of grant	Relevant vesting date	No. of awarded shares to be vested
8 February 2012	7 June 2014	464,275
31 December 2012	31 December 2013	876,962
31 December 2012	31 January 2014	146,300
31 December 2012	7 June 2014	651,825
31 December 2012	31 December 2014	876,962
31 December 2012	31 January 2015	146,300
31 December 2012	31 December 2015	876,964
31 December 2012	31 January 2016	<u>146,300</u>
		<u><u>4,185,888</u></u>

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

Date of grant	Relevant vesting date	No. of awarded shares to be vested
8 February 2012	1 October 2013	464,275
31 December 2012	1 October 2013	<u>3,721,613</u>
		<u><u>4,185,888</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 September 2013.

The number of shares granted during the current period under 91 Share Award Scheme was 49,675. Among the shares granted, relevant vesting date and number of awarded shares to be vested are listed below:

Date of grant	Relevant vesting date	No. of awarded shares to be vested
8 February 2012	1 October 2013	464,275
31 December 2012	1 October 2013	3,721,613
16 September 2013	1 October 2013	<u>49,675</u>
		<u><u>4,235,563</u></u>

Fair value of the 91 Award at the grant date is estimated using a market approach model. The fair value of the 91 Award granted on 16 September 2013 was approximately RMB4,140,000.

The Group recognised the total expenses of approximately RMB36,064,000 and RMB70,748,000 for the three months and nine months ended 30 September 2013, respectively (three months and nine months ended 30 September 2012: approximately RMB1,864,000 and RMB7,528,000, respectively) in relation to share award issued by a subsidiary of the Company under the 91 Share Award Scheme.

2,472,009 91 Awards were vested during the period ended 30 September 2013 (30 September 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 RMB8,633,000 and RMB43,243,000 for the three months and nine months ended 30 September 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 September 2013.

19. EVENTS AFTER THE REPORTING PERIOD

(a) Disposal of 91 Group

As detailed in note 7, the Disposal has been completed on 1 October 2013. With effective from 1 October 2013, 91 Group ceased to be subsidiaries of the Company and its result under the mobile Internet business segment are no longer consolidated into the consolidated financial statements of the Group. Accordingly, the Group ceased to engage in the operation of mobile Internet business after the Disposal. The Disposal results in a significant gain on Disposal which will be recognised in profit or loss for the year ending 31 December 2013.

Further details of the Disposal are set out in the announcement of the Company dated 1 October 2013 and the circular dated 11 September 2013.

(b) Payment of special dividend

Subsequent to the end of reporting period, the Company has determined a payment of a special dividend of HKD7.77 per share, totalling to approximately RMB3,126,873,000, in respect of significant gain on Disposal to those shareholders of the Company whose names appear on the register of members of the Company at the close of business on 29 October 2013. The special dividend has been paid on 6 November 2013.

Further details of the payment of special dividend have set out in the announcement of the Company dated 11 October 2013.

(c) Proposed a new business cooperation

On 30 October 2013, NetDragon BVI entered into a legally binding Memorandum of Understanding with independent third parties, Foxteq Holdings Inc. and Vision Knight Capital (China) Fund I, L.P. in relation to the proposed cooperation investment for exploring and conducting business in the online education and related application market. Subject to the finalisation of the definitive documents, the total amount of the investment for the cooperation shall be USD33,000,000.

The directors of the Company are still assessing the financial impact of this transaction. Further detail of the business plan is set out in the announcement of the Company dated 30 October 2013.

(d) Foreign currency forward contract

On 1 November 2013, the Group entered into foreign currency forward contract with a PRC bank for a period of less than 1 year in relation to the pledged bank deposit and bank borrowing arrangement. The forward contract is to sell USD18,151,000 and buy AUD at AUD1:USD0.9046. The Directors of the Company are still assessing the financial impact of this transaction.

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*):

		Three months ended			
	30 September 2013	30 June 2013	31 March 2013	31 December 2012	30 September 2012
PCU	510,000	468,000	445,000	521,000	525,000
ACU	270,000	255,000	237,000	287,000	281,000

Note: As at 30 September 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 510,000 for the three months ended 30 September 2013, representing an increase of approximately 9.0% from the three months ended 30 June 2013 and representing a decrease of approximately 2.9% from the three months ended 30 September 2012.

We also recorded the ACU for online games of approximately 270,000 for the three months ended 30 September 2013, which represented an increase of approximately 5.9% from the three months ended 30 June 2013 and represented a decrease of approximately 3.9% from the three months ended 30 September 2012.

**FINANCIAL PERFORMANCE HIGHLIGHTS
NINE MONTHS ENDED 30 SEPTEMBER 2013**

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

	Nine months ended	
	30 September	
	2013	2012
	<i>(Unaudited)</i>	<i>(Unaudited</i>
	<i>RMB'000</i>	<i>and restated)</i>
		<i>RMB'000</i>
Continuing operations		
Revenue	655,517	596,640
Cost of revenue	<u>(58,356)</u>	<u>(36,693)</u>
Gross profit	597,161	559,947
Other income and gains	30,293	31,660
Selling and marketing expenses	(74,508)	(87,967)
Administrative expenses	(225,261)	(142,362)
Development costs	(118,388)	(107,698)
Other expenses	(4,756)	(20,298)
Share of losses of associates	<u>(24)</u>	<u>(439)</u>
Operating profit	204,517	232,843
Interest income on pledged bank deposit	4,043	2,600
Exchange gain on pledged bank deposit and secured bank borrowing	128	6,211
Net loss on derivative financial instrument	(2,359)	(6,184)
Finance costs	<u>(3,683)</u>	<u>(2,310)</u>
Profit before taxation	202,646	233,160
Taxation	<u>(33,507)</u>	<u>(30,087)</u>
Profit for the period from continuing operations	169,139	203,073
Discontinued operations		
Profit (loss) for the period from discontinued operations	<u>244,078</u>	<u>(6,930)</u>
Profit for the period	<u>413,217</u>	<u>196,143</u>
Profit for the period attributable to:		
- Owners of the Company	333,631	196,201
- Non-controlling interests	<u>79,586</u>	<u>(58)</u>
	<u>413,217</u>	<u>196,143</u>

Revenue

Continuing operations

Online game revenue for the nine months ended 30 September 2013 was approximately RMB655.5 million, representing an increase of approximately 9.9% as compared to approximately RMB596.6 million for the nine months ended 30 September 2012.

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

	Nine months ended 30 September			
	2013		2012	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	576,264	87.9	514,528	86.2
Overseas	<u>79,253</u>	<u>12.1</u>	<u>82,112</u>	<u>13.8</u>
	<u>655,517</u>	<u>100.0</u>	<u>596,640</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 nine months ended 30 September 2013 was approximately RMB576.3 million, representing an increase of approximately 12.0% over the nine months ended 30 September 2012.

The online game revenue derived from overseas markets for the nine months ended 30 September 2013 was approximately RMB79.2 million, representing a decrease of approximately 3.5% over the nine months ended 30 September 2012.

Discontinued operations

Mobile Internet business revenue for the nine months ended 30 September 2013 was approximately RMB608.2 million, representing an increase of approximately 236.6% as compared to approximately RMB180.7 million for the nine months ended 30 September 2012.

Third Quarter of 2013

Continuing operations

Revenue

The online game revenue for the third quarter of 2013 was approximately RMB219.4 million, representing a decrease of approximately 2.1% from the second quarter of 2013 and an increase of approximately 7.5% over the same period in 2012.

Cost of revenue

Cost of revenue for the third quarter of 2013 was approximately RMB19.8 million, representing an increase of approximately 5.2% from the second quarter of 2013 and an increase of approximately 58.6% over the same period in 2012.

Other income and gains

Other income and gains of approximately RMB12.5 million were recorded for the third quarter of 2013, representing an increase of approximately 168.9% from the second quarter of 2013 and a decrease of approximately 24.7% over the same period in 2012.

Selling and marketing expenses

Selling and marketing expenses for the third quarter of 2013 were approximately RMB27.9 million, representing an increase of approximately 20.9% from the second quarter of 2013 and a decrease of approximately 4.3% over the same period in 2012.

Administrative expenses

Administrative expenses for the third quarter of 2013 were approximately RMB87.6 million, representing an increase of approximately 61.3% from the second quarter of 2013 and representing an increase of approximately 94.0% over the same period in 2012.

Development costs

Development costs for the third quarter of 2013 were approximately RMB45.3 million, representing an increase of approximately 20.8% from the second quarter of 2013 and an increase of approximately 34.2% over the same period in 2012.

Other expenses

Other expenses for the third quarter of 2013 were approximately RMB1.3 million, representing a decrease of approximately 20.2% from the second quarter of 2013 and a decrease of approximately 77.0% over the same period in 2012.

Operating profit

Operating profit for the third quarter of 2013 were approximately RMB49.8 million, representing a decrease of approximately 46.7% from the second quarter of 2013 and a decrease of approximately 47.2% over the same period in 2012.

Net loss on derivative financial instrument

No net loss on derivative financial instrument for the third quarter of 2013 was made, whereas, net loss on derivative financial instrument for the second quarter of 2013 and for the same period in 2012 was approximately RMB8.0 million and RMB3.1 million, respectively.

Finance costs

Finance costs for the third quarter of 2013 were approximately RMB0.3 million, representing a decrease of approximately 78.4% from the second quarter of 2013 and a decrease of approximately 85.9% over the same period in 2012.

Profit for the period from continuing operations

Profit for the third quarter of 2013 was approximately RMB37.0 million, representing a decrease of approximately 52.8% from the second quarter of 2013 and a decrease of approximately 58.2% over the same period in 2012.

Discontinued operations

Revenue

The mobile Internet business revenue for the third quarter of 2013 was approximately RMB261.5 million, representing an increase of approximately 29.5% from the second quarter of 2013 and an increase of approximately 203.8% over the same period in 2012.

Profit for the period from discontinued operations

Profit for the third quarter of 2013 was approximately RMB105.6 million, representing an increase of approximately 39.0% from the second quarter of 2013 and an increase of approximately 1,451.1% over the same period in 2012.

Continuing and discontinued operations**Profit for the period attributable to the owners of the Company**

Profit for the period attributable to the owners of the Company for the third quarter of 2013 was approximately RMB97.2 million, representing a decrease of approximately 22.0% from the second quarter of 2013 and an increase of approximately 1.9% over the same period in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2013 Compared to Second Quarter of 2013

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

	Three months ended	
	30 September	30 June
	2013	2013
	<i>(Unaudited)</i>	<i>(Unaudited and restated)</i>
	RMB'000	RMB'000
Continuing operations		
Revenue	219,364	224,159
Cost of revenue	<u>(19,837)</u>	<u>(18,853)</u>
Gross profit	199,527	205,306
Other income and gains	12,476	4,640
Selling and marketing expenses	(27,935)	(23,106)
Administrative expenses	(87,611)	(54,300)
Development costs	(45,349)	(37,550)
Other expenses	(1,259)	(1,577)
Share of (losses) profit of associates	<u>(41)</u>	<u>20</u>
Operating profit	49,808	93,433
Interest income on pledged bank deposit	222	1,896
Exchange (loss) gain on pledged bank deposit and secured bank borrowing	(1,769)	7,683
Net loss on derivative financial instrument	—	(8,015)
Finance costs	<u>(326)</u>	<u>(1,507)</u>
Profit before taxation	47,935	93,490
Taxation	<u>(10,974)</u>	<u>(15,168)</u>
Profit for the period from continuing operations	36,961	78,322
Discontinued operations		
Profit for the period from discontinued operations	<u>105,586</u>	<u>75,966</u>
Profit for the period	<u>142,547</u>	<u>154,288</u>
Profit for the period attributable to:		
- Owners of the Company	97,230	124,614
- Non-controlling interests	<u>45,317</u>	<u>29,674</u>
	<u>142,547</u>	<u>154,288</u>

FINANCIAL REVIEW

Continuing operations

Revenue

Our online game revenue for the three months ended 30 September 2013 was approximately RMB219.4 million, representing a decrease of approximately 2.1% as compared to approximately RMB224.2 million for the three months ended 30 June 2013.

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

	Three months ended			
	30 September 2013		30 June 2013	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	195,035	88.9	198,315	88.5
Overseas	<u>24,329</u>	<u>11.1</u>	<u>25,844</u>	<u>11.5</u>
	<u>219,364</u>	<u>100.0</u>	<u>224,159</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 September 2013 was approximately RMB195.1 million, representing a decrease of approximately 1.7% as compared to approximately RMB198.3 million for the three months ended 30 June 2013. The decrease in online game revenue derived from the PRC was mainly due to the decrease in revenue from Eudemons Online.

The online game revenue derived from overseas markets for the three months ended 30 September 2013 was approximately RMB24.3 million, representing a decrease of approximately 5.9% as compared to approximately RMB25.9 million for the three months ended 30 June 2013. The decrease in online game revenue derived from overseas markets was mainly due to the decrease in revenue from Conquer Online.

Cost of revenue

Cost of revenue for the three months ended 30 September 2013 was approximately RMB19.8 million, representing an increase of approximately 5.2% as compared with the three months ended 30 June 2013. The increase was mainly due to the increase in depreciation of servers.

Gross profit

Our gross profit for the three months ended 30 September 2013 was approximately RMB199.5 million, representing a decrease of approximately 2.8% as compared to approximately RMB205.3 million for the three months ended 30 June 2013.

Gross profit margin for the three months ended 30 September 2013 was approximately 91.0%, which represented a decrease of approximately 0.6% as compared with the three months ended 30 June 2013.

Other income and gains

Other income and gains for the three months ended 30 September 2013 was approximately RMB12.5 million, representing an increase of approximately 168.9% as compared to approximately RMB4.6 million for the three months ended 30 June 2013. The increase was mainly due to the increase in government grants and interest income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 September 2013 were approximately RMB27.9 million, representing an increase of approximately 20.9% as compared with the three months ended 30 June 2013. The increase in the amount of selling and marketing expenses was mainly due to the increase in advertising and promotional expenses.

Administrative expenses

Administrative expenses increased by approximately 61.3% to approximately RMB87.6 million for the three months ended 30 September 2013 as compared with the three months ended 30 June 2013, which was mainly due to the increase in staff costs, legal and professional fees and expenditure for purchase of domain names.

Development costs

Development costs increased by approximately 20.8% to approximately RMB45.3 million for the three months ended 30 September 2013 as compared with the three months ended 30 June 2013. The increase in the development costs was mainly caused by the increase in share-based payments for the change of vesting period of share award.

Other expenses

Other expenses for the three months ended 30 September 2013 were approximately RMB1.3 million, representing a decrease of approximately 20.2% as compared with three months ended 30 June 2013. The decrease in other expenses was mainly due to offset of (i) the decrease in donation; and (ii) the increase in business tax for inter-group transactions.

Operating profit

Operating profit for the three months ended 30 September 2013 was approximately RMB49.8 million, representing a decrease of approximately 46.7% as compared to approximately RMB93.4 million for the three months ended 30 June 2013.

Net loss on derivative financial instrument

No net loss on derivative financial instrument for the three months ended 30 September 2013 was made, whereas, net loss on derivative financial instrument for the three months ended 30 June 2013 was approximately RMB8.0 million.

Finance costs

Finance costs for the three months ended 30 September 2013 was approximately RMB0.3 million, representing a decrease of approximately 78.4% as compared with the three months ended 30 June 2013. The decrease in finance costs was due to the decrease in days and amount of borrowing.

Taxation

Taxation for the three months ended 30 September 2013 was approximately RMB11.0 million, which dropped by approximately 27.7% as compared with the three months ended 30 June 2013. The decrease was mainly due to offset of (i) the increase in taxable profit; and (ii) the decrease in withholding tax for dividend declared by a subsidiary.

Discontinued operations

Revenue

The mobile Internet business revenue for the three months ended 30 September 2013 was approximately RMB261.5 million, representing an increase of approximately 29.5% as compared to approximately RMB201.9 million for the three months ended 30 June 2013. The increase was mainly contributed by the increase in mobile advertising and promotional service revenue and mobile value-added services revenue.

Profit for the period from discontinued operations

Profit for the three months ended 30 September 2013 from discontinued operations was approximately RMB105.6 million, representing an increase of approximately 39.0% as compared with the three months ended 30 June 2013.

Continuing and discontinued operations

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 September 2013 was approximately RMB97.2 million, representing a decrease of approximately RMB27.4 million as compared with approximately RMB124.6 million for the three months ended 30 June 2013.

Third Quarter of 2013 Compared to Third Quarter of 2012

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

	Three months ended	
	30 September	
	2013	2012
	<i>(Unaudited)</i>	<i>(Unaudited</i>
	<i>RMB'000</i>	<i>and restated)</i>
		<i>RMB'000</i>
Continuing operations		
Revenue	219,364	204,067
Cost of revenue	<u>(19,837)</u>	<u>(12,505)</u>
Gross profit	199,527	191,562
Other income and gains	12,476	16,575
Selling and marketing expenses	(27,935)	(29,199)
Administrative expenses	(87,611)	(45,157)
Development costs	(45,349)	(33,797)
Other expenses	(1,259)	(5,473)
Share of losses of associates	<u>(41)</u>	<u>(173)</u>
Operating profit	49,808	94,338
Interest income on pledged bank deposit	222	2,600
Exchange (loss) gain on pledged bank deposit and secured bank borrowing	(1,769)	6,827
Net loss on derivative financial instrument	—	(3,085)
Finance costs	<u>(326)</u>	<u>(2,310)</u>
Profit before taxation	47,935	98,370
Taxation	<u>(10,974)</u>	<u>(9,892)</u>
Profit for the period from continuing operations	36,961	88,478
Discontinued operations		
Profit for the period from discontinued operations	<u>105,586</u>	<u>6,807</u>
Profit for the period	<u>142,547</u>	<u>95,285</u>
Profit for the period attributable to:		
- Owners of the Company	97,230	95,399
- Non-controlling interests	<u>45,317</u>	<u>(114)</u>
	<u>142,547</u>	<u>95,285</u>

FINANCIAL REVIEW

Continuing operations

Revenue

Our online game revenue for the three months ended 30 September 2013 was approximately RMB219.4 million, representing an increase of approximately 7.5% as compared to approximately RMB204.0 million for the three months ended 30 September 2012.

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

	Three months ended 30 September			
	2013		2012	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	195,035	88.9	175,420	86.0
Overseas	<u>24,329</u>	<u>11.1</u>	<u>28,647</u>	<u>14.0</u>
	<u>219,364</u>	<u>100.0</u>	<u>204,067</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 September 2013 was approximately RMB195.1 million, representing an increase of approximately 11.2% as compared to approximately RMB175.4 million for the three months ended 30 September 2012. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from Eudemons Online and Conquer Online.

The online game revenue derived from overseas markets for the three months ended 30 September 2013 amounted to approximately RMB24.3 million, representing a decrease of approximately 15.1% as compared to approximately RMB28.6 million for the three months ended 30 September 2012.

Cost of revenue

Cost of revenue for the three months ended 30 September 2013 increased by approximately 58.6% to approximately RMB19.8 million as compared with that of approximately RMB12.5 million for the three months ended 30 September 2012. The increase was mainly due to the increase in server leasing fee.

Gross profit

Our gross profit for the three months ended 30 September 2013 was approximately RMB199.5 million, representing an increase of approximately 4.2% as compared to approximately RMB191.6 million for the three months ended 30 September 2012.

Gross profit margin for the three months ended 30 September 2013 was approximately 91.0%, which represented a decrease of approximately 2.9% as compared with the three months ended 30 September 2012.

Other income and gains

Other income and gains for the three months ended 30 September 2013 was approximately RMB12.5 million, representing a decrease of approximately 24.7% as compared with the three months ended 30 September 2012. The decrease in other income and gains was mainly due to offset of (i) the decrease in interest income; and (ii) the increase in government grants.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 September 2013 decreased by approximately 4.3% to approximately RMB27.9 million as compared with the three months ended 30 September 2012. The decrease in selling and marketing expenses was mainly due to decrease advertising and promotional expenses.

Administrative expenses

Administrative expenses increased by approximately 94.0% to approximately RMB87.6 million for the three months ended 30 September 2013 as compared with the three months ended 30 September 2012. The increase in administrative expenses was mainly caused by the increase in share-based payments for the change of vesting period of share award, expenditure for purchase of domain names and legal and professional fees for disposal of 91 Group.

Development costs

Development costs increased by approximately 34.2% to approximately RMB45.3 million for the three months ended 30 September 2013 as compared with the three months ended 30 September 2012. The increase in the amount of development costs was mainly caused by the increase in share-based payments.

Other expenses

Other expenses for the three months ended 30 September 2013 were approximately RMB1.3 million, which represented a decrease of approximately 77.0% as compared with the three months ended 30 September 2012. The decrease in the amount of other expenses was mainly caused by the decrease in donation and allowances on trade receivables.

Operating profit

Operating profit for the three months ended 30 September 2013 was approximately RMB49.8 million, representing a decrease of approximately 47.2% as compared to approximately RMB94.3 million for the three months ended 30 September 2012.

Net loss on derivative financial instrument

No net loss on derivative financial instrument for the three months ended 30 September 2013 was made, whereas, net loss on derivative financial instrument for the three months ended 30 September 2012 was approximately RMB3.1 million.

Finance costs

Finance costs decreased by approximately 85.9% to approximately RMB0.3 million for the three months ended 30 September 2013 as compared with the three months ended 30 September 2012, which was due to the decrease in days and amount of borrowing.

Taxation

Taxation for the three months ended 30 September 2013 was approximately RMB11.0 million, which raised by approximately 10.9% as compared with the three months ended 30 September 2012. The increase was due to the increase in taxable profit.

Discontinued operations

Revenue

The mobile Internet business revenue for the three months ended 30 September 2013 was approximately RMB261.5 million, representing an increase of approximately 203.8% as compared to approximately RMB86.1 million for the three months ended 30 September 2012. The increase was mainly contributed by the increase in mobile advertising and promotional service revenue and mobile value-added services revenue.

Profit for the period from discontinued operations

Profit for the three months ended 30 September 2013 from discontinued operations was approximately RMB105.6 million, representing an increase of approximately 1,451.1% as compared with the three months ended 30 September 2012.

Continuing and discontinued operations

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 September 2013 was approximately RMB97.2 million, representing an increase of approximately RMB1.8 million as compared with approximately RMB95.4 million for the three months ended 30 September 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 payment expenses, 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:

<i>Continuing and discontinued operations</i>	Period ended		Three months ended		
	30 September 2013	30 September 2012	30 September 2013	30 June 2013	30 September 2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-GAAP operating profit	659,822	304,157	247,898	236,468	132,231
Non-GAAP profit	520,265	260,133	193,019	186,406	114,019
Non-GAAP profit attributable to owners of the Company	440,679	260,191	147,702	156,732	114,133

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2013, the Group had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB1,324.0 million (31 December 2012: RMB1,731.3 million), out of which approximately RMB108.3 million (31 December 2012: RMB194.4 million) has been pledged to bank to secure bank borrowing. The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.05 (31 December 2012: 0.13). As at 30 September 2013, the Group had bank borrowing outstanding of approximately RMB110.0 million (31 December 2012: bank borrowing of approximately RMB183.6 million was fixed interest rate loan).

As at 30 September 2013, the Group had net current assets of approximately RMB1,626.7 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:

	At	At	At
	30 September	30 June	30 September
	2013	2013	2012
Research and development	1,843	1,775	1,890
Selling and marketing	979	791	862
Accounting, finance and general administration	<u>634</u>	<u>609</u>	<u>457</u>
Total	<u>3,456</u>	<u>3,175</u>	<u>3,209</u>

As at 30 September 2013, the Group had a total of 3,456 employees (3,175 as at 30 June 2013 and 3,209 as at 30 September 2012, respectively), 848 of which were online game developers of the research and development department, represented approximately 24.5% of the total number of staff.

BUSINESS REVIEW

During the period under review, the Group continued to strive to maintain its leading market position in the PRC 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.

Development and licensing of existing games

To maximise the lifespan of its existing games, the Group 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 continued to launch new expansion packs to enrich its existing games. In September 2013, the production of “Gods Recovery” * (諸神復蘇), a new expansion pack of Eudemons Online (魔域) featuring new team fights, came to the final stage. We believe the introduction of this expansion pack in the near future will set to enhance its appeal to players. In addition, the mobile phone version of Eudemons Online (魔域) developed by the Group has entered closed beta testing.

Crazy Tribe* (瘋狂部落), a 2.5D MMORPG which is set against the background of primitive society, is a large multiplayer online game with a fresh and loveable art style. The highlights of this game include the lost mysterious ancient civilization, rich prehistoric monster systems, thrilling prehistoric adventure maps as well as fresh and interesting activities of the primitive tribes. The beta testing of its Android version in traditional Chinese was carried out in September 2013.

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 in the game. The optimization of functions of this game was completed in August 2013.

* For identification purpose only

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

In respect of the self-operated online games, the Group launched the expansion pack “Brotherhood: It was the best of times, it was the worst of times”* (江湖:混沌年代) for Conquer Online* (征服) in English, French, Spanish and Arabian versions. The Group plans to offer additional in-game items and premium features to bolster the popularity of its online games.

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

Games in the pipeline

To cope with the intensifying competition in the online game industry, in addition to updating 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))*

As the first fantasy ARPG developed by the Group, the game features adventures of dragon-hunting warriors fighting evil dragons and is characterised by intense dragon hunting fights and a fresh style. The Group is considering expanding this game to mobile platforms in order to make a new breakthrough in games. The second closed test of this game commenced in August 2013.

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 continued to launch self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. For Android application markets, the Group expanded the scope of its cooperation with telecommunication companies and established cooperation with certain major IT chains in relation to pre-installation of software. It also created an Android weekly magazine cooperation model, under which the Group, using contents provided by Android markets, collaborated with a renowned reader manufacturer to achieve cross recommendation in order to enhance its brand recognition.

During the period under review, the Group 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 Emperor* (帝王傳) in order to refine its games and attract more new players.

During the period under review, the Group's revenue from advertising business continued to grow with the launch of the Golden Touch* (點金) advertising binding system, which has met the needs of high value enterprises and generated higher revenue for the Group.

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.

* For identification purpose only

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 September 2013, the Group’s overall staff headcount was 3,456, of which 1,843 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 R&D, online and mobile game updates as well as software and application upgrades to accommodate the needs of new players and satisfy 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. Aside from developing new online games to expand its product lines, the Group will continue to update the content for its online games and provide diversified online game versions to extend the life span of its products. As such, the Group’s revenue base can be maximised.

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

Online Games

MMORPGs

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

***Heroes of Might and Magic Online** (英雄無敵在綫)**

Heroes of Might and Magic Online* (英雄無敵在綫) is a turn-based strategy MMORPG emphasizing on strategies and tactics. As a sequel to the Heroes of Might and Magic series, it follows the series' focus on strategies and tactics and features popular functions like castle construction and legend units, while enabling various battle functions among players such as real-time PVP fight, arena and team PK. A series of holiday campaigns for the game have been launched since October 2013 to meet players' needs at different stages.

Other Online Games

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

***Evil Spirits** (妖界)**

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. The iOS version of the game was released in App Store in August 2013. The preliminary test of the game was carried out in Vietnam in November 2013. Its Android version is expected to be launched in the PRC by the end of this year or early next year, in order to attract more players to join the game.

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

** For identification purpose only*

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 to catering 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 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 proposed 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 some others shareholders of 91 Wireless, 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 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company. Special dividend of HKD7.77 per share was paid to the shareholders of the Company on 6 November 2013.

For details of Memorandum of Undertaking, the Merger Agreement and the transactions contemplated thereunder, please refer to the Company's announcements dated 15 July 2013, 16 August 2013, 1 October 2013, 3 October 2013 and 11 October 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. As the closing of the Merger Agreement took place on 1 October 2013, the application for the Proposed Spin-off and the Proposed Listing have ceased.

Cooperation to explore and conduct business in the online education and related application market

On 30 October 2013, NetDragon BVI, Foxteq Holdings Inc., an indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd. and Vision Knight Capital (China) Fund I, L.P. entered into a memorandum of understanding ("**MOU**") for the purpose of exploring and conducting business in the online education and related application market. For further details of the MOU, please refer to the Company's announcement dated 30 October 2013.

Project in the Haixi Animation Creativity City (the "Project")

The Project is a major step for the Group's strategic development. The Project commenced construction in Changle in 2008, and an animation training base was completed in 2009. Starting from September 2010, the animation training base was further expanded to become the Project in the "Haixi Animation Creativity City", which occupies an area of over 3,700 mu. The Project covers a more 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 The first phase is “Phase 1 of Haixi Animation Creativity City” and located on a parcel of land with a site area of 247 mu. It is occupied by the Group for exchange in research and development, and quality development. Currently it has been constructed into several main buildings such as the Group’s office building, the Pentagonal Building* (五角大樓) and the logistics building.
- II The second phase is “Phase 2 of Haixi Animation Creativity City” and located on a parcel of land with a site area of 297 mu. It is used by the Group as core animation research center, of which the Heavenly Building* (天晴樓), a landmark building, was completed in August 2011 and other buildings are under tight construction. Currently, the construction of the roads and landscape and greenery of Phase 2 is drawing to a close and the facilities are expected to put into use by the end of 2013.
- III The third phase is the project for animation application in game terminals (the “AI Project”) and located on a parcel of land with a site area of 600.9 mu. It is served 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.

Furthermore, the Group places great emphasis on the development of education. It spent heavily on the construction of the new Changle campus of Fuzhou Software Technology Vocational College, which has a student enrolment of approximately 8,000 and occupies an area of 536 mu. Currently, the project has completed planning and design and site selection and the campus is expected to put into use by the end of 2014. By then the projects 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. The construction of the Changle project will help form a complete high-tech industry cluster and animation industry chain for “technological research and development, application and production” in the area, making it a new town with the most sophisticated technology and the most ecology-friendly industry, a creative new town with the greatest potential, and a new innovative culture zone along the south-eastern coast in China.

* For identification purpose only

As of 30 September 2013, the Group had capital commitments in relation to the development of the Project of approximately RMB421.8 million, of which the Group had settled approximately RMB313.9 million.

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 our staff. We had successfully enhanced the mobility of staff and maintained the growth momentum of the Group. This project also lowered the total labour cost as shown in the result 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 the efficiency of operation, project management and office administrative processes.

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

As at 30 September 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:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through a controlled corporation	248,925,457(L)	49.03%
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	250,076,457(L)	49.26%
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	248,605,457(L)	48.97%
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%

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Chen Hongzhan (Note 4)	The Company	Beneficial owner and through a controlled corporation	13,190,019(L)	2.60%
Chao Guowei, Charles (Note 5)	The Company	Beneficial owner	997,019(L)	0.20%
Lee Kwan Hung (Note 5)	The Company	Beneficial owner	997,019(L)	0.20%
Liu Sai Keung, Thomas (Note 5)	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 36.65% 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 5.19% 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 36.65% and 3.75%, 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 2.74% 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 48.33% 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.

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 2.19% of the issued share capital of the Company. Chen Hongzhan is deemed to be interested in 2.19% 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 September 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.

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 September 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

* *For identification purpose only*

Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	36.65%
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)	15.43%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320(L)	15.43%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095(L)	14.48%
Richmedia Holdings Limited <i>(Note 3)</i>	The Company	Beneficial owner	26,344,800(L)	5.19%
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 2.14%, 10.24%, 2.10% and 0.95% 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 5.19% 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 September 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 September 2013 are as follows:

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at 1	Number of share options			As at 30
			January 2013	Granted	Exercised	Lapsed	September 2013
Executive Directors							
Liu Dejian	07.12.2009	4.33	1,600,000	—	1,280,000	—	320,000
	22.07.2011	4.60	284,000	—	71,000	—	213,000

Grantee	Date of grant	Exercise Price HKD	As at 1 January 2013	Number of share options			As at 30 September 2013
				Granted	Exercised	Lapsed	
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
Independent non-executive Directors							
Chao Guowei, Charles	22.07.2011	4.60	400,000	—	—	—	400,000
	23.04.2012	5.74	400,000	—	—	—	400,000
Lee Kwan Hung	22.07.2011	4.60	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
Others							
Employees	07.12.2009	4.33	2,200,000	—	1,760,000	—	440,000
	28.04.2011	4.80	11,867,687	—	2,503,400	806,625	8,557,662
	22.07.2011	4.60	1,087,780	—	352,805	67,000	667,975
	23.04.2012	5.74	1,978,000	—	131,075	142,500	1,704,425
	06.07.2012	6.53	735,250	—	54,600	47,500	633,150
	12.09.2012	7.20	117,500	—	—	30,000	87,500
	16.01.2013	11.164	—	789,500	—	43,500	746,000
Total			<u>26,022,217</u>	<u>789,500</u>	<u>8,074,880</u>	<u>1,137,125</u>	<u>17,599,712</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, 3,273,000 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 September 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 September 2013, 9,615,000 awarded shares (among which 117,500 shares and 49,675 Shares were returned shares pursuant to the rules of the 91 Share Award Scheme and were re-granted on 31 December 2012 and 16 September 2013 respectively) 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.

As at 1 October 2013, each selected participant under the 91 Share Award Scheme ceased to hold any interest in 91 Wireless.

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 September 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the period under review, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules 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 nine months ended 30 September 2013.

APPOINTMENT OF CHIEF FINANCIAL OFFICER

Mr. Yam Kwok Hei, Benjamin (“Mr. Yam”) joined NetDragon as our Chief Financial Officer in October 2013 and is responsible for financial management, corporate finance and investor relations. Mr. Yam has over 15 years of professional experience in financial services spanning private equity, corporate finance and auditing. Prior to joining NetDragon, he was a Partner at a Hong Kong-based venture capital firm, and before that, he worked for over 7 years at SAIF Partners, a pre-eminent Asian private equity firm managing over US\$4 billion, where he last served as Senior Vice President and was actively involved in leading the closing and exit of numerous investment transactions in Greater China, as well as serving as an active board member of several portfolio companies. In his early career, Mr. Yam also has professional experience in auditing at Arthur Andersen. Mr. Yam holds a Bachelor of Commerce degree from the University of British Columbia with major in accounting. He is a Chartered Accountant, an associate member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charterholder.

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 unaudited consolidated financial results for the three months and nine months ended 30 September 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 nine months ended 30 September 2013, the Company has repurchased 5,685,500 shares. 2,794,500 shares and 2,891,000 shares, which has been cancelled on 31 July 2013 and 19 September 2013, respectively.

Details of the shares repurchase are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid HKD
		Highest HKD	Lowest HKD	
July 2013	2,794,500	18.60	17.44	50,948,020
August 2013	1,653,000	18.50	18.00	30,272,780
September 2013	<u>1,238,000</u>	<u>18.50</u>	<u>18.20</u>	<u>22,779,440</u>

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

Hong Kong, 28 November 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.