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**NetDragon Websoft Inc.**

**網龍網絡有限公司**

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

**(Stock Code: 777)**

**FIRST QUARTERLY RESULTS ANNOUNCEMENT  
FOR THE THREE MONTHS ENDED 31 MARCH 2014**

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2014. The first quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the “Auditor”) of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

## RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2014 together with the comparative figures in 2013 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2014

		Three months ended 31 March	
		2014	2013
		(Unaudited)	(Unaudited and restated)
	NOTES	RMB'000	RMB'000
<b>Continuing operations</b>			
Revenue	4	217,091	211,994
Cost of revenue		<u>(21,084)</u>	<u>(19,666)</u>
Gross profit		196,007	192,328
Other income and gains	4	47,348	13,536
Selling and marketing expenses		(29,130)	(23,467)
Administrative expenses		(56,875)	(83,709)
Development costs		(40,954)	(35,489)
Other expenses		(1,893)	(1,920)
Share of losses of associates		<u>(88)</u>	<u>(3)</u>
Operating profit		114,415	61,276
Interest income on pledged bank deposit		841	1,925
Exchange loss on pledged bank deposit and secured bank borrowing		(4,163)	(5,786)
Net gain on derivative financial instrument		4,726	5,656
Net gain on held for trading investment		1,093	—
Finance costs		<u>(1,117)</u>	<u>(1,850)</u>
Profit before taxation		115,795	61,221
Taxation	6	<u>(38,042)</u>	<u>(7,365)</u>
Profit for the period from continuing operations	7	77,753	53,856
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	8	<u>—</u>	<u>62,526</u>
Profit for the period		77,753	116,382
Other comprehensive income (expense) for the period, net of income tax			
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss		<u>553</u>	<u>(112)</u>
Total comprehensive income for the period		<u><u>78,306</u></u>	<u><u>116,270</u></u>

	<b>Three months ended 31 March</b>	
	<b>2014</b>	2013
	<i>(Unaudited)</i>	<i>(Unaudited and restated)</i>
<i>NOTE</i>	<b>RMB'000</b>	<b>RMB'000</b>
Profit (loss) for the period attributable to:		
- Owners of the Company	<b>79,662</b>	111,787
- Non-controlling interests	<u><b>(1,909)</b></u>	<u>4,595</u>
	<u><b>77,753</b></u>	<u>116,382</u>
Profit for the period attributable to owners of the Company:		
- from continuing operations	<b>79,662</b>	53,938
- from discontinued operations	<u>—</u>	<u>57,849</u>
Profit for the period attributable to owners of the Company	<u><b>79,662</b></u>	<u>111,787</u>
(Loss) profit for the period attributable to non-controlling interests:		
- from continuing operations	<b>(1,909)</b>	(82)
- from discontinued operations	<u>—</u>	<u>4,677</u>
(Loss) profit for the period attributable to non-controlling interests	<u><b>(1,909)</b></u>	<u>4,595</u>
Total comprehensive income (expense) attributable to:		
- Owners of the Company	<b>80,215</b>	111,675
- Non-controlling interests	<u><b>(1,909)</b></u>	<u>4,595</u>
	<u><b>78,306</b></u>	<u>116,270</u>
	<b>RMB cents</b>	<b>RMB cents</b>
<b>Earnings per share</b>	10	
From continuing and discontinued operations		
- Basic	<b>15.70</b>	22.19
- Diluted	<u><b>15.61</b></u>	<u>16.91</u>
From continuing operations		
- Basic	<b>15.70</b>	10.71
- Diluted	<u><b>15.61</b></u>	<u>10.63</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2014**

		<b>31 March 2014</b>	31 December 2013
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	11	<b>653,241</b>	532,684
Prepaid lease payments	12	<b>185,376</b>	185,819
Investment property	12	<b>15,861</b>	15,725
Interests in associates		<b>2,219</b>	1,299
Available-for-sale investments		<b>5,000</b>	5,000
Loan receivables		<b>14,111</b>	16,041
Deposits made for acquisition of property, plant and equipment		<b>54,766</b>	16,769
Other receivable		<b>61,521</b>	60,969
Goodwill		<b>12,534</b>	12,534
Deferred tax assets		<b>54</b>	54
		<b><u>1,004,683</u></b>	<b><u>846,894</u></b>
<b>Current assets</b>			
Prepaid lease payments		<b>2,583</b>	2,583
Loan receivables		<b>461</b>	713
Trade receivables	13	<b>44,013</b>	41,718
Other receivables, prepayments and deposits		<b>72,835</b>	69,770
Held for trading investment		<b>21,828</b>	20,735
Amounts due from related companies		<b>3,076</b>	4,564
Amounts due from associates		<b>9</b>	—
Other financial asset		<b>1,604</b>	—
Pledged bank deposit	15	<b>108,340</b>	107,368
Bank deposits		<b>2,983,317</b>	3,051,289
Bank balances and cash		<b><u>1,339,205</u></b>	<b><u>1,304,355</u></b>
		<b><u>4,577,271</u></b>	<b><u>4,603,095</u></b>

		<b>31 March</b>	31 December
		<b>2014</b>	2013
		<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current liabilities</b>			
Trade and other payables	14	<b>274,196</b>	152,837
Deferred income		<b>24,019</b>	26,553
Amount due to an associate		<b>135</b>	—
Secured bank borrowing	15	<b>109,807</b>	104,672
Other financial liability		<b>—</b>	3,122
Income tax payable		<b>471,361</b>	539,927
		<u><b>879,518</b></u>	<u>827,111</u>
<b>Net current assets</b>		<u><b>3,697,753</b></u>	<u>3,775,984</u>
<b>Total assets less current liabilities</b>		<u><b>4,702,436</b></u>	<u>4,622,878</u>
<b>Non-current liability</b>			
Other payables	16	<u><b>2,248</b></u>	<u>—</u>
<b>Net assets</b>		<u><u><b>4,700,188</b></u></u>	<u><u>4,622,878</u></u>
<b>Capital and reserves</b>			
Share capital		<b>37,665</b>	37,664
Share premium and reserves		<u><b>4,660,686</b></u>	<u>4,577,478</u>
Equity attributable to owners of the Company		<b>4,698,351</b>	4,615,142
Non-controlling interests		<u><b>1,837</b></u>	<u>7,736</u>
		<u><u><b>4,700,188</b></u></u>	<u><u>4,622,878</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2014

	Attributable to owners of the Company														
	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 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	—	—	—	—	—	—	—	—	—	—	—	111,787	111,787	4,595	116,382
Other comprehensive expense for the period	—	—	—	—	—	—	—	—	—	—	(112)	—	(112)	—	(112)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	—	—	—	(112)	111,787	111,675	4,595	116,270
Shares issued upon exercise of share options	10	918	—	—	—	—	—	—	—	(283)	—	—	645	—	645
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	6,611	—	—	6,611	—	6,611
Recognition of equity-settled share-based payments granted by subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	40,763	40,763
Conversion of redeemable convertible preferred shares	—	—	—	408,261	—	—	—	—	—	—	—	—	408,261	188,614	596,875
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,445	(2,846)	—	1,401	—	—	—
At 31 March 2013 (unaudited)	<u>37,542</u>	<u>1,070,762</u>	<u>3,717</u>	<u>410,470</u>	<u>10,045</u>	<u>172,895</u>	<u>81,947</u>	<u>673</u>	<u>(5,780)</u>	<u>34,468</u>	<u>(58,291)</u>	<u>162,593</u>	<u>1,921,041</u>	<u>256,126</u>	<u>2,177,167</u>
At 1 January 2014	<u>37,664</u>	<u>1,036,480</u>	<u>4,139</u>	<u>—</u>	<u>10,045</u>	<u>202,885</u>	<u>79,977</u>	<u>673</u>	<u>(5,780)</u>	<u>29,777</u>	<u>(59,309)</u>	<u>3,278,591</u>	<u>4,615,142</u>	<u>7,736</u>	<u>4,622,878</u>
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	—	79,662	79,662	(1,909)	77,753
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	553	—	553	—	553
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	—	—	—	553	79,662	80,215	(1,909)	78,306
Shares issued upon exercise of share options	1	101	—	—	—	—	—	—	—	(27)	—	—	75	—	75
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	2,919	—	—	2,919	—	2,919
Awarded shares vested to employees	—	—	—	—	—	—	—	—	1,445	(2,803)	—	1,358	—	—	—
Return of capital to non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	(3,990)	(3,990)
At 31 March 2014 (unaudited)	<u>37,665</u>	<u>1,036,581</u>	<u>4,139</u>	<u>—</u>	<u>10,045</u>	<u>202,885</u>	<u>79,977</u>	<u>673</u>	<u>(4,335)</u>	<u>29,866</u>	<u>(58,756)</u>	<u>3,359,611</u>	<u>4,698,351</u>	<u>1,837</u>	<u>4,700,188</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED 31 MARCH 2014**

	<b>Three months ended 31 March</b>	
	<b>2014</b>	2013
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u><b>112,218</b></u>	<u>176,873</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(123,123)	(49,050)
Purchase of prepaid lease payments	(116)	(58,800)
Payment for deposits of property, plant and equipment	(48,307)	—
Placement of bank deposits	(1,947,950)	(226,050)
Withdrawal of bank deposits	2,032,400	191,628
Other investing cash flows	<u>27,088</u>	<u>5,384</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u><b>(60,008)</b></u>	<u>(136,888)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of redeemable convertible preferred shares	—	109,888
Other financing activities	<u>(4,774)</u>	<u>(4,955)</u>
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<u><b>(4,774)</b></u>	<u>104,933</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>47,436</b>	144,918
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>1,304,355</b>	1,142,825
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u><b>(12,586)</b></u>	<u>5,039</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<u><b>1,339,205</b></u>	<u>1,292,782</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED 31 MARCH 2014**

**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 games development, including games design, programming and graphics and online games operation. The Group was also engaged in mobile Internet business which was discontinued since 1 October 2013.

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.

**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 three months ended 31 March 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

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



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

	Three months ended	
	31 March	
	2014	2013
	(Unaudited)	(Unaudited and restated)
Continuing operations	RMB'000	RMB'000
<b>Revenue</b>		
Online game revenue	<u>217,091</u>	<u>211,994</u>
<b>Other income and gains</b>		
Government grants ( <i>Note</i> )	1,289	8,806
Interest income	21,536	4,141
Net foreign exchange gain	21,642	—
Gain on disposal of held for trading investment	—	229
Rental income, net of negligible outgoing expenses	124	127
Others	<u>2,757</u>	<u>233</u>
	<u>47,348</u>	<u>13,536</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.

With effective from 1 October 2013, the Group's mobile Internet business segment has been classified as discontinued operations upon the disposal of 91 Wireless Websoft Limited and its subsidiaries ("91 Group"), which is described in more details in note 8. 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:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<i>(Unaudited)</i>	<i>(Unaudited and restated)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
Segment revenue	<u><b>217,091</b></u>	<u>211,994</u>
Segment profit	<b>100,331</b>	117,762
Unallocated income and gains	<b>39,557</b>	4,377
Unallocated expenses	<b>(24,005)</b>	(60,915)
Share of losses of associates	<u><b>(88)</b></u>	<u>(3)</u>
Profit before taxation	<u><b>115,795</b></u>	<u>61,221</u>

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

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

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

	<b>31 March</b>	31 December
	<b>2014</b>	2013
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
Online game	<b>5,196,413</b>	5,129,373
Unallocated	<u><b>385,541</b></u>	<u>320,616</u>
	<u><b>5,581,954</b></u>	<u>5,449,989</u>

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segment other than those assets managed on group basis, such as interests in associates, available-for-sale investments, loan receivables, certain bank deposits and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

## 6. TAXATION

	Three months ended	
	31 March	
	2014	2013
	(Unaudited)	(Unaudited and restated)
Continuing operations	RMB'000	RMB'000
The tax charge from continuing operations comprises:		
Hong Kong Profits Tax	2,270	1,780
The PRC Enterprise Income Tax ("EIT")	35,730	5,541
Taxation in other jurisdiction	<u>42</u>	<u>44</u>
	<u>38,042</u>	<u>7,365</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months ended 31 March 2014 and 2013.

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

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

## 7. PROFIT FOR THE PERIOD

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<i>(Unaudited)</i>	<i>(Unaudited and restated)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
Profit for the period from continuing operations has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	<b>1,898</b>	2,730
Other staff costs		
Salaries and other benefits	<b>69,923</b>	57,838
Contributions to retirement benefits schemes	<b>5,940</b>	5,311
Share-based payments expense	<b>5,171</b>	36,354
	<b><u>82,932</u></b>	<u>102,233</u>
Amortisation of intangible assets (included in cost of revenue)	—	411
Release of prepaid lease payments (included in administrative expenses)	<b>559</b>	364
Depreciation of property, plant and equipment	<b><u>12,948</u></b>	<u>13,234</u>
Total depreciation and amortisation	<b><u>13,507</u></b>	<u>14,009</u>
Operating lease rentals in respect of:		
- rented premises	<b>2,443</b>	2,385
- computer equipment	<b>8,356</b>	8,530
Net foreign exchange (gain) loss	<b>(17,479)</b>	7,473
Loss on disposal of property, plant and equipment	<b><u>80</u></b>	<u>26</u>

## 8. 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 has conditionally agreed to purchase the entire equity interest of 91 Group (the “Disposal”). The Disposal was completed on 1 October 2013.

The profit from the discontinued operations for the three months ended 31 March 2013 was analysed as follows:

	Three months ended 31 March 2013 (Unaudited) RMB'000
Profit for the period	<u>62,526</u>
Attributable to:	
- Owners of the Company	57,849
- Non-controlling interests	<u>4,677</u>
	<u>62,526</u>

The results of the mobile Internet business for the three months ended 31 March 2013 was as follows:

	Three months ended 31 March 2013 (Unaudited) RMB'000
Revenue	144,731
Cost of revenue	<u>(26,993)</u>
Gross profit	117,738
Other income and gains	1,681
Selling and marketing expenses	(12,043)
Administrative expenses	(19,113)
Development costs	(19,171)
Other expenses	(2,900)
Share of losses of associates	(390)
Share of profit of a joint venture	<u>1,013</u>
Operating profit	66,815
Exchange gain on redeemable convertible preferred shares	1,133
Net gain on derivative financial instruments	32,704
Finance costs	<u>(10,875)</u>
Profit before taxation	89,777
Taxation	<u>(27,251)</u>
Profit for the period from discontinued operations	<u><u>62,526</u></u>

## 9. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend during the three months ended 31 March 2014 (three months ended 31 March 2013: Nil).

## 10. EARNINGS PER SHARE

### From continuing and discontinued operations

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

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>RMB'000</b>	<b>RMB'000</b>
Earnings for the purposes of basic earnings per share:		
- profit for the period attributable to the owners of the Company	<b>79,662</b>	111,787
Effect of dilutive potential ordinary shares:		
- adjustment to the share of profit of subsidiaries based on dilution of their earnings per share ( <i>Note</i> )	<u>—</u>	<u>(26,009)</u>
Earnings for the purpose of diluted earnings per share	<u><b>79,662</b></u>	<u>85,778</u>
	<b>Number of shares</b>	
	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<b>'000</b>	<b>'000</b>
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)	<b>507,524</b>	503,774
Effect of dilutive potential shares from the Company's share option scheme	<u><b>2,795</b></u>	<u>3,481</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><b>510,319</b></u>	<u>507,255</u>

*Note:* The computation of diluted earnings per share for the three months ended 31 March 2013 had taken into account the effect of share awards and redeemable convertible preferred shares issued by 91 Wireless Websoft Limited.

### 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 31 March	
	2014	2013
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share:		
Profit for the period attributable to the owners of the Company	79,662	111,787
Less: profit for the period from discontinued operations attributable to the owners of the Company	<u>—</u>	<u>57,849</u>
Earnings for the purposes of calculating basic and diluted earnings per share from continuing operations	<u>79,662</u>	<u>53,938</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

Basic and diluted earnings per share from discontinued operations were RMB11.48 cents and RMB6.28 cents, respectively for the three months ended 31 March 2013, based on the profit attributable to the owners of the Company from discontinued operations of approximately RMB57,849,000 and the denominators detailed above for both basic and diluted earnings per share from continuing operations.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the three-month period ended 31 March 2014, the deposits of approximately RMB10,310,000 were transferred to property, plant and equipment (three-month period ended 31 March 2013: Nil) and the Group spent approximately RMB123,123,000 (three-month period ended 31 March 2013: RMB49,050,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB21,062,000 (three-month period ended 31 March 2013: RMB8,111,000) in office and computer equipment and RMB106,589,000 (three-month period ended 31 March 2013: RMB38,025,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

## 12. PREPAID LEASE PAYMENTS/INVESTMENT PROPERTY

During the three-month period ended 31 March 2014, the Group spent approximately RMB116,000 (three-month period ended 31 March 2013: RMB58,800,000) for the acquisition of prepaid lease payments to expand its buildings located in Fuzhou. The Group is in the process of obtaining the land use right certificate.



The Group's investment property as at 31 March 2014 were fair valued by Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group. The valuation was determined by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. There has been no change from the valuation technique used in the prior period. No significant changes in fair value between 31 March 2014 and 31 December 2013 (three-month period ended 31 March 2013: Nil). In estimating the fair value of the properties, the highest and best use of the properties is their current use.

### 13. 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 revenue recognition dates.

	<b>31 March 2014</b>	31 December 2013
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	<b>13,933</b>	22,806
31 - 60 days	<b>5,437</b>	5,088
61 - 90 days	<b>4,503</b>	10,211
Over 90 days	<u><b>20,140</b></u>	<u>3,613</u>
Total	<u><b>44,013</b></u>	<u>41,718</u>

### 14. TRADE AND OTHER PAYABLES

	<b>31 March 2014</b>	31 December 2013
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<b>7,009</b>	6,050
Accrued staff costs	<b>49,903</b>	70,214
Receipt in advance	<b>12,276</b>	20,065
Other tax payables ( <i>Note</i> )	<b>143,950</b>	—
Other payables and accruals	<u><b>61,058</b></u>	<u>56,508</u>
	<u><b>274,196</b></u>	<u>152,837</u>

*Note:* On 28 December 2011, 91 Wireless Websoft Limited introduced a 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. Upon the Disposal on 1 October 2013 as described in note 8, the eligible participants would be entitled to the merger consideration of United States dollar (“USD”) 13.168 per share and the special dividend of USD0.371 per share of 91 Wireless Websoft Limited in cash, which were both received by the Group on behalf of the eligible participants. As at 31 March 2014, an amount of approximately RMB144 million of withholding PRC personal income tax calculated at the applicable tax rate and other surcharges was withheld by the Group.

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

	<b>31 March 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
0 - 90 days	<b>4,020</b>	2,576
91 - 180 days	<b>812</b>	3,121
181 - 365 days	<b>1,885</b>	61
Over 365 days	<u><b>292</b></u>	<u>292</u>
	<u><b>7,009</b></u>	<u>6,050</u>

#### **15. PLEDGED BANK DEPOSIT/SECURED BANK BORROWING**

The secured bank borrowing is denominated in Australian dollar, carries interest rate of 3.84% per annum and repayable on 5 September 2014. The borrowing is secured by the pledged bank deposit which is denominated in USD.

#### **16. OTHER PAYABLES**

Other payables represent the consideration received on behalf of the eligible participants of the share award scheme upon the disposal of 91 Wireless Websoft Limited as described in note 8. As at 31 March 2014, an amount of RMB9,507,000, which is repayable within twelve months after the end of the reporting period in accordance with the deferred payment agreement, is included in other payables as current liabilities. The remaining balance of approximately RMB2,248,000, which are repayable on 1 October 2015 and 31 January 2016 respectively in accordance with deferred payment agreement, are included as non-current liabilities.

## 17. 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.

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

	<b>Number of share options</b>
Outstanding as at 1 January 2014	17,170,989
Forfeited during the period	(600,050)
Exercised during the period	<u>(8,400)</u>
Outstanding as at 31 March 2014	<u>16,562,539</u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD16.18.

The Group recognised the total expenses of approximately RMB2,022,000 for the three months ended 31 March 2014 (three months ended 31 March 2013: RMB2,475,000) in relation to share options granted by the Company.

Upon the Disposal as detailed in note 8, few participants of 91 Group under the Scheme are no longer the staffs of the Group. However, the share options of these participants shall not lapse on the date of the Disposal, but shall continue to have effect under the Scheme. The Group recognised the total expense of approximately RMB119,000 for the period ended 31 March 2014 (three months period ended 31 March 2013: Nil) in relation to these share options granted.

### (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 RMB778,000 for the three months ended 31 March 2014 (three months ended 31 March 2013: RMB4,136,000) in relation to share award.

317,400 share awards were vested and released during the three months ended 31 March 2014 (31 March 2013: 317,397). The number of share awards outstanding at 31 March 2014 was 952,203.

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

Pursuant to the announcement of the Company dated 28 December 2011, the former 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”).

No expenses was recognised for the three months ended 31 March 2014 (three months ended 31 March 2013: RMB14,692,000) in relation to share award issued by a subsidiary of the Company under the 91 Share Award Scheme by the Group.

No 91 Awards was vested and released during the period ended 31 March 2014 (31 March 2013: 416,150 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 participants of the Group. Among the shares awarded, 1,528,625 shares were entitled by the selected participants on 9 January 2013, 1,528,625 shares will be entitled by the selected participants on 1 January 2014, 1,528,625 shares will be entitled by the selected participants on 1 January 2015 and the remaining 1,528,625 shares will be entitled by the selected participants 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 RMB3,496,000 for the three months ended 31 March 2014 (three months period ended 31 March 2013: RMB26,071,000) in relation to the shares awarded on 9 January 2013.

Upon the Disposal with effective from 1 October 2013 as detailed in note 8, certain participants of 91 Group under the Scheme are no longer the employees of the Group and the shares awarded to these participants shall be lapsed. However, the board of directors have approved shares awarded to these employees to continue to have effect as stated in the relevant letters of grant initially issued by a subsidiary of the Company. The Group recognised the total expenses of approximately RMB316,000 for the three months ended 31 March 2014 (three months period ended 31 March 2013: Nil) in relation to these share awarded.

## 18. EVENT AFTER THE REPORTING PERIOD

### Issue of share options

On 25 April 2014, the Company granted a total of 556,000 share options to subscribe for up to 556,000 ordinary shares of USD0.01 each in the capital of the Company at an exercise price of HKD14.66 under its share option scheme to an eligible participant. The closing price of the Company's share on grant date was HKD14.66.

Details of such share options are as follows:

<b>Date of grant</b>	<b>Vesting period</b>	<b>Exercisable period</b>	<b>Number of share options granted</b>
25 April 2014	25 April 2014 - 31 December 2014	1 January 2015 - 24 April 2024	139,000
25 April 2014	25 April 2014 - 31 December 2015	1 January 2016 - 24 April 2024	139,000
25 April 2014	25 April 2014 - 31 December 2016	1 January 2017 - 24 April 2024	139,000
25 April 2014	25 April 2014 - 31 December 2017	1 January 2018 - 24 April 2024	<u>139,000</u>
			<u>556,000</u>

The directors of the Company are still assessing the financial impact of this transaction. Further details of the grant of share options are set out in the announcement of the Company dated 25 April 2014.

## OPERATION INFORMATION

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

	<b>Three months ended</b>				
	<b>31 March 2014</b>	31 December 2013	30 September 2013	30 June 2013	31 March 2013
<b>PCU</b>	<b>472,000</b>	477,000	510,000	468,000	445,000
<b>ACU</b>	<b>239,000</b>	266,000	270,000	255,000	237,000

*Note:* As at 31 March 2014, 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 game was approximately 472,000 for the three months ended 31 March 2014, representing a slight decrease of approximately 1.0% from the three months ended 31 December 2013 and representing an increase of approximately 6.1% from the three months ended 31 March 2013.

We also recorded the ACU for online game of approximately 239,000 for the three months ended 31 March 2014, which represented a decrease of approximately 10.2% from the three months ended 31 December 2013 and represented a slight increase of approximately 0.8% from the three months ended 31 March 2013.

**FINANCIAL PERFORMANCE HIGHLIGHTS  
FOR THE THREE MONTHS ENDED 31 MARCH 2014**

The following table sets forth the comparative figures for the three months ended 31 March 2014 and 2013:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<i>(Unaudited)</i>	<i>(Unaudited</i>
	<i>RMB'000</i>	<i>and restated)</i>
		<i>RMB'000</i>
<b>Continuing operations</b>		
Revenue	<b>217,091</b>	211,994
Cost of revenue	<u><b>(21,084)</b></u>	<u>(19,666)</u>
Gross profit	<b>196,007</b>	192,328
Other income and gains	<b>47,348</b>	13,536
Selling and marketing expenses	<b>(29,130)</b>	(23,467)
Administrative expenses	<b>(56,875)</b>	(83,709)
Development costs	<b>(40,954)</b>	(35,489)
Other expenses	<b>(1,893)</b>	(1,920)
Share of losses of associates	<u><b>(88)</b></u>	<u>(3)</u>
Operating profit	<b>114,415</b>	61,276
Interest income on pledged bank deposit	<b>841</b>	1,925
Exchange loss on pledged bank deposit and secured bank borrowing	<b>(4,163)</b>	(5,786)
Net gain on derivative financial instrument	<b>4,726</b>	5,656
Net gain on held for trading investment	<b>1,093</b>	—
Finance costs	<u><b>(1,117)</b></u>	<u>(1,850)</u>
Profit before taxation	<b>115,795</b>	61,221
Taxation	<u><b>(38,042)</b></u>	<u>(7,365)</u>
Profit for the period from continuing operations	<b>77,753</b>	53,856
<b>Discontinued operations</b>		
Profit for the period from discontinued operations	<u>—</u>	<u>62,526</u>
Profit for the period	<u><b>77,753</b></u>	<u>116,382</u>
Profit (loss) for the period attributable to:		
- Owners of the Company	<b>79,662</b>	111,787
- Non-controlling interests	<u><b>(1,909)</b></u>	<u>4,595</u>
	<u><b>77,753</b></u>	<u>116,382</u>

## Revenue

### *Continuing operations*

Online game revenue for the three months ended 31 March 2014 was approximately RMB217.1 million, representing an increase of approximately 2.4% as compared to approximately RMB212.0 million for the three months ended 31 March 2013.

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

	<b>Three months ended 31 March</b>			
	<b>2014</b>		<b>2013</b>	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
<b>PRC</b>	<b>187,731</b>	<b>86.5</b>	182,914	86.3
<b>Overseas</b>	<b><u>29,360</u></b>	<b><u>13.5</u></b>	<u>29,080</u>	<u>13.7</u>
	<b><u>217,091</u></b>	<b><u>100.0</u></b>	<u>211,994</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 three months ended 31 March 2014 was approximately RMB187.7 million, representing an increase of approximately 2.6% over the three months ended 31 March 2013.

The online game revenue derived from overseas markets for the three months ended 31 March 2014 was approximately RMB29.4 million, keeping at a steady level as compared with the three months ended 31 March 2013.



## **First Quarter of 2014**

### *Continuing operations*

#### **Revenue**

The online game revenue for the first quarter of 2014 was approximately RMB217.1 million, representing a decrease of approximately 5.2% from the fourth quarter of 2013 and an increase of approximately 2.4% over the same period in 2013.

#### **Cost of revenue**

Cost of revenue for the first quarter of 2014 was approximately RMB21.1 million, representing a decrease of approximately 8.6% from the fourth quarter of 2013 and an increase of approximately 7.2% over the same period in 2013.

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

Other income and gains of approximately RMB47.3 million were recorded for the first quarter of 2014, representing an increase of approximately 222.4% from the fourth quarter of 2013 and an increase of approximately 249.8% over the same period in 2013.

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

Selling and marketing expenses for the first quarter of 2014 were approximately RMB29.1 million, representing a decrease of approximately 8.1% from the fourth quarter of 2013 and an increase of approximately 24.1% over the same period in 2013.

#### **Administrative expenses**

Administrative expenses for the first quarter of 2014 were approximately RMB56.9 million, representing a decrease of approximately 59.6% from the fourth quarter of 2013 and a decrease of approximately 32.1% over the same period in 2013.

#### **Development costs**

Development costs for the first quarter of 2014 were approximately RMB41.0 million, representing a decrease of approximately 7.9% from the fourth quarter of 2013 and an increase of approximately 15.4% over the same period in 2013.

**Other expenses**

Other expenses for the first quarter of 2014 were approximately RMB1.9 million, representing a decrease of approximately 64.2% from the fourth quarter of 2013 and a slight decrease of approximately 1.4% over the same period in 2013.

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

Net gain on derivative financial instrument for the first quarter of 2014 was approximately RMB4.7 million, representing a decrease of approximately 16.4% over the same period in 2013, whereas, net loss on derivative financial instrument for the fourth quarter of 2013 was approximately RMB3.1 million.

**Finance costs**

Finance costs for the first quarter of 2014 were approximately RMB1.1 million, representing an increase of approximately 15.4% from the fourth quarter of 2013 and a decrease of approximately 39.6% over the same period in 2013.

**Profit (loss) for the period from continuing operations**

Profit for the first quarter of 2014 was approximately RMB77.8 million, representing an increase of approximately 44.4% over the same period in 2013, whereas, loss for the fourth quarter of 2013 was approximately RMB2.7 million.

***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 first quarter of 2014 was approximately RMB79.7 million, representing a decrease of approximately 98.6% from the fourth quarter of 2013 and a decrease of approximately 28.7% for the same period of 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### First Quarter of 2014 Compared to Fourth Quarter of 2013

The following table sets forth the comparative figures for the first quarter of 2014 and the fourth quarter of 2013:

	<b>Three months ended</b>	
	<b>31 March 2014</b>	31 December 2013
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Continuing operations</b>		
Revenue	<b>217,091</b>	229,001
Cost of revenue	<u><b>(21,084)</b></u>	<u>(23,070)</u>
Gross profit	<b>196,007</b>	205,931
Other income and gains	<b>47,348</b>	14,687
Selling and marketing expenses	<b>(29,130)</b>	(31,692)
Administrative expenses	<b>(56,875)</b>	(140,882)
Development costs	<b>(40,954)</b>	(44,469)
Other expenses	<b>(1,893)</b>	(5,290)
Share of (losses) profit of associates	<u><b>(88)</b></u>	<u>8</u>
Operating profit (loss)	<b>114,415</b>	(1,707)
Interest income on pledged bank deposit	<b>841</b>	840
Exchange (loss) gain on pledged bank deposit and secured bank borrowing	<b>(4,163)</b>	4,465
Net gain (loss) on derivative financial instrument	<b>4,726</b>	(3,122)
Gain on disposal of available-for-sale investment	<b>—</b>	5,761
Net gain on held for trading investment	<b>1,093</b>	8,756
Finance costs	<u><b>(1,117)</b></u>	<u>(968)</u>
Profit before taxation	<b>115,795</b>	14,025
Taxation	<u><b>(38,042)</b></u>	<u>(16,757)</u>
Profit (loss) for the period from continuing operations	<b>77,753</b>	(2,732)
<b>Discontinued operations</b>		
Profit for the period from discontinued operations	<u><b>—</b></u>	<u>5,811,963</u>
Profit for the period	<u><b>77,753</b></u>	<u>5,809,231</u>
Profit (loss) for the period attributable to:		
- Owners of the Company	<b>79,662</b>	5,807,145
- Non-controlling interests	<u><b>(1,909)</b></u>	<u>2,086</u>
	<u><b>77,753</b></u>	<u>5,809,231</u>

## FINANCIAL REVIEW

### *Continuing operations*

#### **Revenue**

Our online game revenue for the three months ended 31 March 2014 was approximately RMB217.1 million, representing a decrease of approximately 5.2% as compared to approximately RMB229.0 million for the three months ended 31 December 2013.

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

	<b>Three months ended</b>			
	<b>31 March 2014</b>		31 December 2013	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
<b>PRC</b>	<b>187,731</b>	<b>86.5</b>	205,178	89.6
<b>Overseas</b>	<b><u>29,360</u></b>	<b><u>13.5</u></b>	<u>23,823</u>	<u>10.4</u>
	<b><u>217,091</u></b>	<b><u>100.0</u></b>	<u>229,001</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 31 March 2014 was approximately RMB187.7 million, representing a decrease of approximately 8.5% as compared to approximately RMB205.2 million for the three months ended 31 December 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 31 March 2014 was approximately RMB29.4 million, representing an increase of approximately 23.2% as compared to approximately RMB23.8 million for the three months ended 31 December 2013. The increase in online game revenue derived from overseas markets was mainly due to the increase in revenue from Conquer Online.

## **Cost of revenue**

Cost of revenue for the three months ended 31 March 2014 was approximately RMB21.1 million, representing a decrease of approximately 8.6% as compared to approximately RMB23.1 million for the three months ended 31 December 2013. The decrease was mainly due to the decrease in transaction handling fee and cooperation fee.

## **Gross profit**

Our gross profit for the three months ended 31 March 2014 was approximately RMB196.0 million, representing a decrease of approximately 4.8% as compared to approximately RMB205.9 million for the three months ended 31 December 2013.

The gross profit margin for the three months ended 31 March 2014 was approximately 90.3%, which represented an increase of approximately 0.4% as compared with the three months ended 31 December 2013.

## **Other income and gains**

Other income and gains for the three months ended 31 March 2014 were approximately RMB47.3 million, representing an increase of approximately 222.4% as compared with the three months ended 31 December 2013. The increase in other income and gains was mainly due to the increase in (i) interest income; and (ii) exchange gain on foreign currencies.

## **Selling and marketing expenses**

Selling and marketing expenses for the three months ended 31 March 2014 were approximately RMB29.1 million, representing a decrease of approximately 8.1% as compared with the three months ended 31 December 2013. The decrease in selling and marketing expenses was mainly due to offset of the (i) decrease in staff bonus; (ii) decrease in advertising and promotion expenses; and (iii) increase in internet and website maintenance fees.

## **Administrative expenses**

Administrative expenses decreased by approximately 59.6% to approximately RMB56.9 million for the three months ended 31 March 2014 as compared with the three months ended 31 December 2013, which was mainly due to the decrease in staff salaries, share-based payments expense and depreciation. Furthermore, no exchange loss and expenditure for purchase of domain name were incurred for the three months ended 31 March 2014.

## **Development costs**

Development costs decreased by approximately 7.9% to approximately RMB41.0 million for the three months ended 31 March 2014 as compared with the three months ended 31 December 2013, which was mainly due to the decrease in staff bonus.

## **Other expenses**

Other expenses for the three months ended 31 March 2014 were approximately RMB1.9 million, representing a decrease of approximately 64.2% as compared with three months ended 31 December 2013. The decrease in other expenses was mainly due to the decrease in redundancy payment. Furthermore, no write-off of intangible assets was incurred for the three months ended 31 March 2014.

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

Net gain on derivative financial instrument was approximately RMB4.7 million for the three months ended 31 March 2014, whereas, net loss on derivative financial instrument for the three months ended 31 December 2013 was approximately RMB3.1 million.

## **Finance costs**

Finance costs increased by approximately 15.4% to approximately RMB1.1 million for the three months ended 31 March 2014 as compared with the three months ended 31 December 2013. The increase in finance costs was mainly due to the appreciation of Australian dollar.

## **Taxation**

Taxation for the three months ended 31 March 2014 was approximately RMB38.0 million, which raised by approximately 127.0% as compared with the three months ended 31 December 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 31 March 2014 was approximately RMB79.7 million, representing a decrease of approximately 98.6% as compared to approximately RMB5,807.1 million for the three months ended 31 December 2013.

## First Quarter of 2014 Compared to First Quarter of 2013

The following table sets forth the comparative figures for the first quarter of 2014 and the first quarter of 2013:

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	<b>2013</b>
	<i>(Unaudited)</i>	<i>(Unaudited and restated)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Continuing operations</b>		
Revenue	<b>217,091</b>	211,994
Cost of revenue	<u><b>(21,084)</b></u>	<u>(19,666)</u>
Gross profit	<b>196,007</b>	192,328
Other income and gains	<b>47,348</b>	13,536
Selling and marketing expenses	<b>(29,130)</b>	(23,467)
Administrative expenses	<b>(56,875)</b>	(83,709)
Development costs	<b>(40,954)</b>	(35,489)
Other expenses	<b>(1,893)</b>	(1,920)
Share of losses of associates	<u><b>(88)</b></u>	<u>(3)</u>
Operating profit	<b>114,415</b>	61,276
Interest income on pledged bank deposit	<b>841</b>	1,925
Exchange loss on pledged bank deposit and secured bank borrowing	<b>(4,163)</b>	(5,786)
Net gain on derivative financial instrument	<b>4,726</b>	5,656
Net gain on held for trading investment	<b>1,093</b>	—
Finance costs	<u><b>(1,117)</b></u>	<u>(1,850)</u>
Profit before taxation	<b>115,795</b>	61,221
Taxation	<u><b>(38,042)</b></u>	<u>(7,365)</u>
Profit for the period from continuing operations	<b>77,753</b>	53,856
<b>Discontinued operations</b>		
Profit for the period from discontinued operations	<u><b>—</b></u>	<u>62,526</u>
Profit for the period	<u><b>77,753</b></u>	<u>116,382</u>
Profit (loss) for the period attributable to:		
- Owners of the Company	<b>79,662</b>	111,787
- Non-controlling interests	<u><b>(1,909)</b></u>	<u>4,595</u>
	<u><b>77,753</b></u>	<u>116,382</u>

## FINANCIAL REVIEW

### *Continuing operations*

#### **Revenue**

Our online game revenue for the three months ended 31 March 2014 was approximately RMB217.1 million, representing an increase of approximately 2.4% as compared to approximately RMB212.0 million for the three months ended 31 March 2013.

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

	<b>Three months ended 31 March</b>			
	<b>2014</b>		<b>2013</b>	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
<b>PRC</b>	<b>187,731</b>	<b>86.5</b>	182,914	86.3
<b>Overseas</b>	<b><u>29,360</u></b>	<b><u>13.5</u></b>	<u>29,080</u>	<u>13.7</u>
	<b><u>217,091</u></b>	<b><u>100.0</u></b>	<u>211,994</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 31 March 2014 was approximately RMB187.7 million, representing an increase of approximately 2.6% as compared to approximately RMB182.9 million for the three months ended 31 March 2013. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from Eudomons Online.

The online game revenue derived from overseas markets for the three months ended 31 March 2014 amounted to approximately RMB29.4 million, keeping at a steady level as compared with the three months ended 31 March 2013.

#### **Cost of revenue**

Cost of revenue for the three months ended 31 March 2014 increased by approximately 7.2% to approximately RMB21.1 million as compared with that of approximately RMB19.7 million for the three months ended 31 March 2013. The increase was mainly due to the increase in depreciation of servers.



## **Gross profit**

Our gross profit for the three months ended 31 March 2014 was approximately RMB196.0 million, representing an increase of approximately 1.9% as compared to approximately RMB192.3 million for the three months ended 31 March 2013.

Gross profit margin for the three months ended 31 March 2014 was approximately 90.3%, which represented a decrease of approximately 0.4% as compared with the three months ended 31 March 2013.

## **Other income and gains**

Other income and gains for the three months ended 31 March 2014 were approximately RMB47.3 million, representing an increase of approximately 249.8% as compared with the three months ended 31 March 2013. The increase was mainly due to the increase in interest income. Furthermore, exchange gain was recorded for the three months ended 31 March 2014.

## **Selling and marketing expenses**

Selling and marketing expenses for the three months ended 31 March 2014 increased by approximately 24.1% to approximately RMB29.1 million as compared with the three months ended 31 March 2013. The increase in selling and marketing expenses was mainly due to the increase in advertising and promotion expenses and internet and website maintenance fees.

## **Administrative expenses**

Administrative expenses decreased by approximately 32.1% to approximately RMB56.9 million for the three months ended 31 March 2014 as compared with the three months ended 31 March 2013. The decrease in administrative expenses was mainly due to offset of the (i) decrease in share-based payments expense; and (ii) increase in staff salaries and bonus.

## **Development costs**

Development costs increased by approximately 15.4% to approximately RMB41.0 million for the three months ended 31 March 2014 as compared with the three months ended 31 March 2013. The increase in development costs was mainly caused by the increase in staff salaries and welfare.

## **Other expenses**

Other expenses for the three months ended 31 March 2014 were approximately RMB1.9 million, which represented a slight decrease of approximately 1.4% as compared with the three months ended 31 March 2013.

## **Net gain on derivative financial instrument**

Net gain on derivative financial instrument decreased by approximately 16.4% to approximately RMB4.7 million for the three months ended 31 March 2014 as compared with the three months ended 31 March 2013.

## Finance costs

Finance costs decreased by approximately 39.6% to approximately RMB1.1 million for the three months ended 31 March 2014 as compared with the three months ended 31 March 2013, which was mainly due to the decrease in the amount of the bank borrowing.

## Taxation

Taxation for the three months ended 31 March 2014 raised by approximately 416.5% to approximately RMB38.0 million as compared with the three months ended 31 March 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 31 March 2014 was approximately RMB79.7 million, representing a decrease of approximately RMB32.1 million as compared with approximately RMB111.8 million the three months ended 31 March 2013.

## NON-GAAP FINANCIAL MEASURES

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

The non-GAAP measures from continuing and discontinued operations of the Group are presented as follows:

	<b>Three months ended</b>		
	<b>31 March 2014</b>	31 December 2013	31 March 2013
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Non-GAAP operating profit	<b>121,146</b>	11,336	175,456
Non-GAAP profit (loss)	<b>83,104</b>	(5,421)	140,840
Non-GAAP profit (loss) attributable to owners of the Company	<b>85,013</b>	(7,507)	136,245

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2014, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB4,430.9 million (31 December 2013: RMB4,463.0 million), out of which approximately RMB108.3 million (31 December 2013: RMB107.4 million) has been pledged to bank to secure bank borrowing. The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.02 (31 December 2013: 0.02). As at 31 March 2014, total bank borrowing of the Group amounted to approximately RMB109.8 million (31 December 2013: RMB104.7 million) was fixed rate loan.

As at 31 March 2014, the Group had net current assets of approximately RMB3,697.8 million as compared with approximately RMB3,776.0 million as at 31 December 2013.

## STAFF INFORMATION

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

	<b>At 31 March 2014</b>	At 31 December 2013	At 31 March 2013
Research and development	<b>1,246</b>	1,230	1,183
Selling and marketing	<b>497</b>	520	562
Accounting, finance and general administration	<u><b>542</b></u>	<u>518</u>	<u>503</u>
Total	<u><b>2,285</b></u>	<u>2,268</u>	<u>2,248</u>

As at 31 March 2014, we had a total of 2,285 employees (31 December 2013 and 31 March 2013: 2,268 and 2,248, respectively), 707 of which were online game developers of the research and development department, represented approximately 30.9% of the total number of staff.

## **BUSINESS REVIEW**

During the period under review, the Group remained committed to maintaining its leading market position in the PRC's online game industry. By adhering to the strategy of strengthening the research and development (“R&D”) and operation capabilities of the games to promptly capture market opportunities emerging from the PRC and the overseas online game industries, especially those emerging continuously from the mobile games environment, quality online game products were provided to global players.

In response to intensifying competition in the online game industry, the Group adopts different ways to extend the lifespan of current game products and focus on enriching its product reserves, thereby ensuring its future leading competitive advantage in the industry.

### **Development of existing MMORPG**

During the period under review, the Group continued to offer a wide range of quality MMORPG products to players leveraging its strong self-developed R&D capabilities for games and ever innovating corporate culture.

The Group always strive to timely offer more innovative virtual items and game tasks to players by introducing new expansion packs, and continuously upgrade the contents of all games in operation to improve their popularity and maintain players' interest to the games, hence lengthening the lifespan of existing games and generating stable cash flows for the Group.

During the period under review, the Chinese expansion pack of Eudemons Online (魔域), “Dragon Knight — Apocalypse”\* (暗黑龍騎·浩劫), was opened for internal testing in March 2014 and started its official beta testing in April 2014. The introduction of a brand new class, the Shadow Knight, further enhanced the appeal of this game to players. In addition, the Group is developing the mobile version of Eudemons Online (魔域) and has entered the closed beta version of production stage. In response to the demand of players, new expansion pack of other major games of the Group was also released — “Demon Is Coming”\* (羅刹來了), an expansion pack of Way of the Five\* (開心) was released in March 2014, introducing a wide variety of brand new classes and items which has significantly improved its gameplay. The successive releases of these new expansion packs had lengthened the lifespan of the games.

\* For identification purpose only

For expansion of overseas markets, as a pioneer among the PRC's game makers expanding into overseas markets, the Group continued to maintain its leading edges among the PRC's online game operators during the period under review. It operated its online game products in various countries and regions with market potential, thereby constantly generating revenue from overseas markets and reducing pressure arising from intensifying competition in the domestic online game market.

During the period under review, the flagship product of the Group in overseas markets, Conquer Online (征服) released its expansion pack "Wrath of the Trojan"\* (勇士崛起) for overseas versions in English and Arabic in March 2014. The Group expects to strengthen its market shares of its key flagship game products in overseas markets through ongoing upgrades of multilingual expansion packs and focusing on R&D and operation efforts.

### **Mobile Games Business**

In order to capture the opportunities brought by the growing mobile games industry in the PRC, the Group continued to focus on the development and operation of mobile games. During the period under review, many mobile game products were opened for internal and beta testing, including the card role play game, Micro Western Odyssey\* (微西遊); the strategic role play game, Most Runescape\* (最江湖); the action-based role play game, Age of Egmont Pocket Version\* (獵龍戰記口袋版); the 2.5D role play game, Celestial Saga\* (戰蒼穹), which is developed by C3 game engine and the Fatal Fighter\* (全球快打), a horizontal scrolling fighting game with alien theme. We believe these games can enable sufficient product reserve for the continuous launch of masterpiece games in the Group.

During the process of expansion in mobile game market, the Group made reference to previous successful experiences and fully utilized the R&D and operation advantages accumulated over the years in the MMORPG field. To extend the Group's flagship game, Eudemons Online's (魔域) branding and clustering effects of players on mobile terminals, the mobile game version of Eudemons Online (魔域), Eudemons Online Pocket Version\* (魔域口袋版), is scheduled for testing in May 2014. It is believed that this game version will gain potential growth in the mobile game field via its wide user base and popularity accumulated in the MMORPG market. The upgraded version of Arabic version of The Pirates\* (大海盜) was launched during the period under review to promote detailed refinement of games in order to attract more players.

*\* For identification purpose only*

The Group believes that, by virtue of its years of experiences in R&D and market expansion in the field of interactive games, the Group's mobile game business is expected to achieve remarkable results.

### **Online Education Project**

Being the foundation of the Group's education project, "Open Education Cloud Platform"\* (開放教育雲平台) is a large-scale education cloud platform covering a back-end fundamental support platform, a front-end application platform and faces numerous terminals. The construction of this platform is currently under steady progress, and the Group is continuously investing resources to enrich the contents of this platform. On top of this platform, the Group is constructing a micro research base to develop advanced education solutions for various segments such as secondary and higher vocational education, universities, non-degree, lifetime education and K12. In the future, education cloud platform is expected to cover the whole lifelong education system, ranging from kindergarten to university for the aged. During the period under review, the Group entered into a cooperation agreement with a renowned vocational education institution in the PRC to build a remote secondary vocational education and public services system together, whereby pilots will be conducted in Fujian Province first before the model is progressively duplicated and promoted across the PRC.

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

On 24 January 2014, NetDragon Websoft Inc. ("NetDragon BVI"), entered into an agreement with Foxteq Holdings Inc. and Vision Knight Capital (China) Fund I, L.P., pursuant to which the parties agree to collaborate in the exploration and business operation in the online education and related application market through the establishment of WOFE (a wholly foreign owned enterprise to be established in the PRC) and the structure contracts arrangement ("Agreement").

For further details of the Agreement, please refer to the Company's announcement dated 24 January 2014.

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

"The Haixi Animation Creativity City" is a project initiated by Changle Western Taiwan Straits Creative Valley (長樂海西創意谷) with planning and construction carried out by the Group. It is a key project under construction in Fujian province in 2013, and also a key project for the cultural creativity industry in the Linkonggang

\* For identification purpose only

Economic Zone of Fuzhou City. The Project covers a more integrated industrial chain of animation creativity from research and development in animation, exchange, animation derivatives to elite education. During the period under review, the progress of the three phases was as follows:

- I The first phase is “Phase 1 of the Haixi Animation Creativity City” and located on a parcel of land with a site area of approximately 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 and Pentagonal Building\* (五角大樓), with a gross floor area of approximately 20,000 square meters and an investment amount exceeding RMB200 million.
- II The second phase is “Phase 2 of the Haixi Animation Creativity City” and located on a parcel of land with a site area of approximately 297 mu. It is used by the Group as core animation research center with a gross floor area of approximately 250,000 square meters and a total investment amount exceeding RMB600 million, of which the Heavenly Building\* (天晴樓), a landmark building was completed in August 2011 and other buildings are under tight construction.
- III The third phase is “Phase 3 of the Haixi Animation Creativity City” and located on a parcel of land with a site area of approximately 495 mu, is a project for game terminal and animation application. The Group is processing the land supply procedure.

The Group has bid the land for the auxiliary commercial and residential area of the Haixi Animation Creativity City with an area of approximately 105 mu. The project area will be utilized as the land for the auxiliary commercial and residential area of the Haixi Animation Valley, on which residential buildings will be built and sold to its employees. The Group is processing the land supply procedure.

Furthermore, the Group places great emphasis on the development of education. It is planning to construct of the new Changle campus for Fuzhou Software Technology Vocational College, which has an expected student enrolment of approximately 8,000 and occupies an area of approximately 536 mu. Currently, the Project is in the process of land application and approval procedure. When put into use, the project 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

\* For identification purpose only



Haixi animation creation industry. The construction of the 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.

### **Enhancement of R&D capabilities**

The Group places emphasis on its self-developed R&D capabilities, and believes that they have driven the success of products of MMORPG, mobile games, online education and cloud offices. During the period under review, the Group focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 31 March 2014, the Group’s total staff headcount was 2,285, of which 1,246 were members of the R&D team, and a significant portion of which were industry elites in the domestic fields of programming design, design and graphic art.

### **Prospects and Outlook**

Looking forward, the Group will continue to maintain its strong game R&D and operation capabilities by training and recruiting outstanding talents in the industry. While constantly developing new products to expand its product lines, the Group will also extend the lifecycle of existing products by means such as updating the contents of its operating games in due course and offering differentiated new expansion packs, so that the revenue from our game operation will continue to grow steadily. In the meantime, the Group will increase its investment in mobile games, constantly launch products that cater to the preferences of mobile games users by accurately understanding their needs while focusing on transplanting its experience in the R&D and operation of online Internet games, so as to create a new breakthrough in this thriving sector.

Meanwhile, the Group will take full advantage of its strong capital strength to launch online education products recognized by users, thereby enhance its competitive advantage to occupy a position in this thriving online education market. The Group will also put emphasis on strategic opportunities arising from new sectors and constantly develop new growth drivers to ensure greater success of the Group in future.



## MMORPGS

### *Tiger Knight\** (虎豹騎)

This is a new type of action and competition war game developed by the Group. Based on the Three Kingdom theme which is well known to and generally enjoyed by both domestic and foreign players, this product supports massive multi-player synchronized online playing. This game is currently in the R&D stage and is planned to start testing in the second half of 2014.

### *COS\** (英魂之刃)

It is a MOBA (Multiplayer Online Battle Arena) type of online game developed by the Group integrating various themes such as science fiction, fantasy and mystique themes. With the background of time-travel as themes, the game gathers various mythical creatures and legendary heroes of civilizations from all over the world to fight for COS\* (英魂之刃). The game players will fight with each other by giving commands to their own heroes via battle of wits. This game is opened for internal testing and is scheduled for official launch in the second half of 2014.

## Mobile Games

### *Micro Western Odyssey\** (微西遊)

This is a new generation strategic game which integrates the features of the two categories of card games and horizontal-version round-based games, and combines the Diablo style with the brand-new Journey to the West Story. Since top designers in the industry were invited to participate in the artistic production and renowned fan fiction writers were asked to write the story, it will interpret the most stylish and unique story of Journey to the West for the users. Meanwhile, marvelous character design, changing scenes and dazzling playing skills will show players unprecedented aesthetics which cannot be seen in strategy card games. This game has started external testing in April 2014.

### *Most Runescape\** (最江湖)

This is a gorgeous and realistic swordsman game using self-developed engine and the retina technology. This product adopts all-gesture leisure controlling and is complemented by the micro-film-like knight-errant adventure stories, where all

\* For identification purpose only

heroic figures created by various famous writers of knight-errant stories appear in the game to show a majestic mobile knight-errant world to players. This game is in the iOS version unlimited internal testing stage and is scheduled for the second external testing in May 2014.

*Celestial Saga\** (戰蒼穹)

This is a 2.5D action-based role play mobile game developed by the core game R&D team of the Group using its best effort. This game adopts the cutting-edge retina picture technology, which resulted in extremely beautiful and realistic pictures and extreme fineness. Meanwhile, the smooth virtual joystick control and pleasant ARPG fighting scene are expected to provide players with a series of extreme mobile gaming experiences. This game is currently in the internal testing phase and is scheduled for official beta testing in the second quarter of 2014.

*Eudemons Online Pocket Version\** (魔域口袋版)

As the mobile game version of Eudemons Online (征服), which is a masterpiece of the Group in the MMORPG sector, Eudemons Online Pocket Version\* (魔域口袋版) is a free-for-lifetime mobile game whose core elements include beast breeding and group fighting. Besides maintaining the typical playing methods of online games, this product has conducted all-round optimization to meet the needs of mobile phone users for gaming experience and incorporated the virtual joystick feature which is more suitable for smart phones such as iOS and Android, and these will greatly meet the needs of mobile game players. This game is scheduled for testing in May 2014 and will official launch to the market in the second half of 2014.

### **Online Education Project**

In view of the fact that the PRC online education market is entering a period of high-speed growth and has tremendous market potential, the Group will further enhance the strategic position of online education projects in the Group and increase its investment in this field. The Group will continue to expand the education contents resources available on the “Open Education Cloud Platform” (開放教育雲平台) which serves as the project basis and accelerate the development of large-size education cloud platforms which are oriented to various terminals such as PC, smart phone and tablet computer by various means including purchase and cooperative import.

*\* For identification purpose only*

## **Conclusion**

The Group is of the opinion that, the online game industry in the PRC has experienced a rapid growth stage for years, and is entering a mature stage with intensifying competition. Therefore, the production capacity and market of the online game industry are approaching saturation, and the industry growth rate will remain stable. Therefore, the market concentration is expected to further shift to those outstanding online game enterprises, including the Group, with strong R&D and operational capabilities and successful track record. In this regard, the Group will further put more efforts on the selection, cultivation, utilization and retention of talents with various expertise, optimize the process for the establishment, R&D and operation of game projects and continue to strengthen core competitiveness. The Group will also upgrade the existing game products in a timely manner and launch more quality products that cater the needs of players to enhance its attractiveness to players.

The Group has fully switched its strategic focus on the mobile games business to the development and operation of mobile games, and thus launched a series of highly acclaimed products. The Group is of the opinion that with continued explosive growth in the mobile games field in China, the Group intend to fully capitalize on our research and development and operating experience accumulated in our online game business and the advantages in terms of channels and operations established in the overseas game market over the years, thus enabling the Group to achieve remarkable performance in this strategic direction.

In addition, with the Group's growing business development, its efforts in projects such as online education and "The Haixi Animation Creativity City" will enlarge and are expected to become new performance growth drivers for the Group, ensuring the Group to achieve more splendid success in the future.

## **Other Events**

The Group has implemented talent optimization since 2009. We achieved expected results in respect of simplifying and improving team work efficiency, reducing labor costs, strengthening team cohesiveness and enhancing staff competitiveness. In the future, the Group will continue to conduct necessary talent optimization in due course to maintain growth momentum. In terms of performance results, the talent optimization project also continue to bring down total labor costs and further boost staff morale and their sense of responsibility.

In order to enhance efficiency in game development and promotion, the Group continued to improve the integrated operation model, enhance operation efficiency, and optimize business management system, time management system, bug management system, production process system and game version management system in relation to project management and daily office administrative procedures.

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

As at 31 March 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) (“SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

<b>Name of Director</b>	<b>Name of company</b>	<b>Capacity and nature of interests</b>	<b>Number of shares and underlying shares held or amount of registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through a controlled corporation	248,925,457(L)	48.94%
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)	49.17%

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
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	248,605,457(L)	48.88%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan (Note 4)	The Company	Beneficial owner and beneficiary of a trust	13,190,019(L)	2.59%
Chao Guowei, Charles (Note 5)	The Company	Beneficial owner	1,315,019(L)	0.26%
Lee Kwan Hung (Note 5)	The Company	Beneficial owner	1,315,019(L)	0.26%
Liu Sai Keung, Thomas (Note 5)	The Company	Beneficial owner	1,235,019(L)	0.24%

*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 36.59% of the issued share capital of the Company.

Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 5.18% of the issued share capital of the Company.

197,019 shares were held by each of Liu Dejian and Liu Luyuan as beneficiary interest of a trust.

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 36.59% and 3.74%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 2.74% 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 48.24% 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, Liu Luyuan and Zheng Hui have 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 2.59% of the issued share capital of the Company which is represented by personal interest of 1,351,000 shares, interest held as a beneficiary of a trust of 11,306,019 shares and the rest being underlying shares of interest of 533,000 share options granted by the Company.
5. On 22 July 2011, 23 April 2012 and 4 December 2013, the Company granted 400,000 share options, 400,000 share options and 318,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas respectively.

Save as disclosed above, to the best knowledge of the Directors, as at 31 March 2014, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

\* For identification purpose only

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

So far as is known to the Directors, as at 31 March 2014, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

<b>Name</b>	<b>Name of Group member</b>	<b>Capacity and nature of interests</b>	<b>Number of ordinary shares held or amount of registered capital contributed</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	36.59%
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)	15.40%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320(L)	15.40%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095(L)	14.45%
Richmedia Holdings Limited <i>(Note 3)</i>	The Company	Beneficial owner	26,344,800(L)	5.18%

*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 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%, 10.22%, 2.09% 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 5.18% of the issued share capital of the Company.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 March 2014.



## 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 31 March 2014 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at 1 January 2014	Number of share options			As at 31 March 2014
				Granted	Exercised	Lapsed	
<b>Executive Directors</b>							
Liu Dejian	07.12.2009	4.33	320,000	—	—	—	320,000
	22.07.2011	4.60	213,000	—	—	—	213,000
Liu Luyuan	07.12.2009	4.33	1,400,000	—	—	—	1,400,000
	22.07.2011	4.60	284,000	—	—	—	284,000
Zheng Hui	22.07.2011	4.60	213,000	—	—	—	213,000
Chen Hongzhan	07.12.2009	4.33	320,000	—	—	—	320,000
	22.07.2011	4.60	213,000	—	—	—	213,000
<b>Independent non-executive Directors</b>							
Chao Guowei, Charles	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
Lee Kwan Hung	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
Liu Sai Keung, Thomas	22.07.2011	4.60	200,000	—	—	—	200,000
	23.04.2012	5.74	300,000	—	—	—	300,000
	04.12.2013	15.72	318,000	—	—	—	318,000
<b>Others</b>							
Employees	07.12.2009	4.33	160,000	—	—	—	160,000
	28.04.2011	4.80	8,016,784	—	—	379,500	7,637,284
	22.07.2011	4.60	604,463	—	—	—	604,463
	23.04.2012	5.74	1,601,667	—	—	144,950	1,456,717
	06.07.2012	6.53	588,075	—	—	—	588,075
	12.09.2012	7.20	83,000	—	—	—	83,000
	16.01.2013	11.164	<u>700,000</u>	—	<u>8,400</u>	<u>75,600</u>	<u>616,000</u>
Total			<u>17,170,989</u>	<u>—</u>	<u>8,400</u>	<u>600,050</u>	<u>16,562,539</u>

Note:

1. During the period under review, no 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.

On 31 March 2014, 952,203 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 952,203 awarded shares granted, a total of 354,636 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.

### *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 31 March 2014, no awarded shares were granted under the Best Assistant Share Award Scheme.

## **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 three months ended 31 March 2014.

## **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.

## **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.

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.

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group’s unaudited consolidated financial statements for the period ended 31 March 2014 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

During the three months ended 31 March 2014, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company’s listed securities.

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

Hong Kong, 28 May 2014

*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.*