

# 2014

## Interim Report

NETDRAGON WEBSOFT INC.

網龍網絡有限公司

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



EDUCATION

GAMES



瘋狂部落  
CrazyHarbor



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# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) OPERATION INFORMATION

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

		Three months ended			
	30 June 2014	31 March 2014	31 December 2013	30 September 2013	30 June 2013
<b>PCU</b>	<b>471,000</b>	472,000	477,000	510,000	468,000
<b>ACU</b>	<b>239,000</b>	239,000	266,000	270,000	255,000

*Note:* As at 30 June 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 games was approximately 471,000 for the three months ended 30 June 2014, representing a slight decrease of approximately 0.2% from the three months ended 31 March 2014 and representing a slight increase of approximately 0.6% from the three months ended 30 June 2013.

We also recorded the ACU for online games of approximately 239,000 for the three months ended 30 June 2014, which was no change from the three months ended 31 March 2014 and represented a decrease of approximately 6.3% from the three months ended 30 June 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (2) FINANCIAL PERFORMANCE HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

The following table sets forth the comparative figures for the six months ended 30 June 2014 and 2013:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited
	<b>RMB'000</b>	and restated)
		<i>RMB'000</i>
<b>Continuing operations</b>		
Revenue	<b>447,235</b>	436,153
Cost of revenue	<b>(42,972)</b>	(38,519)
Gross profit	<b>404,263</b>	397,634
Other income and gains	<b>88,603</b>	17,817
Selling and marketing expenses	<b>(62,720)</b>	(46,573)
Administrative expenses	<b>(128,520)</b>	(137,650)
Development costs	<b>(92,641)</b>	(73,039)
Other expenses	<b>(18,384)</b>	(3,497)
Share of (losses) profits of associates	<b>(233)</b>	17
Operating profit	<b>190,368</b>	154,709
Interest income on pledged bank deposit	<b>1,681</b>	3,821
Exchange (loss) gain on pledged bank deposit and secured bank borrowing	<b>(6,269)</b>	1,897
Net gain (loss) on derivative financial instrument	<b>7,463</b>	(2,359)
Net gain on held-for-trading investment	<b>1,154</b>	—
Finance costs	<b>(2,249)</b>	(3,357)
Profit before taxation	<b>192,148</b>	154,711
Taxation	<b>(50,589)</b>	(22,533)
Profit for the period from continuing operations	<b>141,559</b>	132,178
<b>Discontinued operations</b>		
Profit for the period from discontinued operations	<b>—</b>	138,492
Profit for the period	<b>141,559</b>	270,670
Profit (loss) for the period attributable to:		
– Owners of the Company	<b>143,492</b>	236,401
– Non-controlling interests	<b>(1,933)</b>	34,269
	<b>141,559</b>	270,670

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Revenue

#### *Continuing operations*

Revenue from online game and other business for the six months ended 30 June 2014 was approximately RMB447.2 million, representing an increase of approximately 2.5% as compared to approximately RMB436.1 million for the six months ended 30 June 2013.

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

	Six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
<b>PRC</b>	<b>391,242</b>	<b>87.5</b>	381,229	87.4
<b>Overseas</b>	<b>55,993</b>	<b>12.5</b>	54,924	12.6
	<b>447,235</b>	<b>100.0</b>	436,153	100.0

The Group's revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the six months ended 30 June 2014 was approximately RMB391.2 million, representing an increase of approximately 2.6% over the six months ended 30 June 2013.

The revenue derived from overseas markets for the six months ended 30 June 2014 was approximately RMB56.0 million, representing an increase of approximately 1.9% over the six months ended 30 June 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

Second Quarter of 2014

### *Continuing operations*

#### Revenue

The revenue for the second quarter of 2014 was approximately RMB230.1 million, representing an increase of approximately 6.0% from the first quarter of 2014 and an increase of approximately 2.7% over the same period in 2013.

#### Cost of revenue

Cost of revenue for the second quarter of 2014 was approximately RMB21.9 million, representing an increase of approximately 3.8% from the first quarter of 2014 and an increase of approximately 16.1% over the same period in 2013.

#### Other income and gains

Other income and gains of approximately RMB41.3 million were recorded for the second quarter of 2014, representing a decrease of approximately 12.9% from the first quarter of 2014 and an increase of approximately 863.7% over the same period in 2013.

#### Selling and marketing expenses

Selling and marketing expenses for the second quarter of 2014 were approximately RMB33.6 million, representing an increase of approximately 15.3% from the first quarter of 2014 and an increase of approximately 45.4% over the same period in 2013.

#### Administrative expenses

Administrative expenses for the second quarter of 2014 were approximately RMB71.6 million, representing an increase of approximately 26.0% from the first quarter of 2014 and an increase of approximately 32.8% over the same period in 2013.

#### Development costs

Development costs for the second quarter of 2014 were approximately RMB51.7 million, representing an increase of approximately 26.2% from the first quarter of 2014 and an increase of approximately 37.6% over the same period in 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Second Quarter of 2014 (Cont'd)

#### Other expenses

Other expenses for the second quarter of 2014 were approximately RMB16.5 million, representing an increase of approximately 771.2% from the first quarter of 2014 and an increase of approximately 945.7% over the same period in 2013.

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

Net gain on derivative financial instrument for the second quarter of 2014 was approximately RMB2.7 million, representing a decrease of approximately 42.1% from the first quarter of 2014, whereas, net loss on derivative financial instrument for the same period in 2013 was approximately RMB8.0 million.

#### Finance costs

Finance costs for the second quarter of 2014 were approximately RMB1.1 million, representing a slight increase of approximately 1.3% from the first quarter of 2014 and a decrease of approximately 24.9% over the same period in 2013.

#### Profit for the period from continuing operations

Profit for the second quarter of 2014 was approximately RMB63.8 million, representing a decrease of approximately 17.9% from the first quarter of 2014 and a decrease of approximately 18.5% over the same period in 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 second quarter of 2014 was approximately RMB63.8 million, representing a decrease of approximately 19.9% from the first quarter of 2014 and a decrease of approximately 48.8% for the same period of 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) FINANCIAL REVIEW

Second Quarter of 2014 Compared to First Quarter of 2014

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

	<b>Three months ended</b>	
	<b>30 June 2014 (Unaudited) RMB'000</b>	31 March 2014 (Unaudited) RMB'000
Revenue	<b>230,144</b>	217,091
Cost of revenue	<b>(21,888)</b>	(21,084)
Gross profit	<b>208,256</b>	196,007
Other income and gains	<b>41,255</b>	47,348
Selling and marketing expenses	<b>(33,590)</b>	(29,130)
Administrative expenses	<b>(71,645)</b>	(56,875)
Development costs	<b>(51,687)</b>	(40,954)
Other expenses	<b>(16,491)</b>	(1,893)
Share of losses of associates	<b>(145)</b>	(88)
Operating profit	<b>75,953</b>	114,415
Interest income on pledged bank deposit	<b>840</b>	841
Exchange loss on pledged bank deposit and secured bank borrowing	<b>(2,106)</b>	(4,163)
Net gain on derivative financial instrument	<b>2,737</b>	4,726
Net gain on held-for-trading investment	<b>61</b>	1,093
Finance costs	<b>(1,132)</b>	(1,117)
Profit before taxation	<b>76,353</b>	115,795
Taxation	<b>(12,547)</b>	(38,042)
Profit for the period	<b>63,806</b>	77,753
Profit (loss) for the period attributable to:		
– Owners of the Company	<b>63,830</b>	79,662
– Non-controlling interests	<b>(24)</b>	(1,909)
	<b>63,806</b>	77,753

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Revenue

Our revenue from online game and other business for the three months ended 30 June 2014 was approximately RMB230.1 million, representing an increase of approximately 6.0% as compared to approximately RMB217.1 million for the three months ended 31 March 2014.

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

	Three months ended			
	30 June 2014		31 March 2014	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
<b>PRC</b>	<b>203,511</b>	<b>88.4</b>	187,731	86.5
<b>Overseas</b>	<b>26,633</b>	<b>11.6</b>	29,360	13.5
	<b>230,144</b>	<b>100.0</b>	217,091	100.0

The revenue derived from the PRC for the three months ended 30 June 2014 was approximately RMB203.5 million, representing an increase of approximately 8.4% as compared to approximately RMB187.7 million for the three months ended 31 March 2014. The increase in revenue derived from the PRC was mainly due to the increase in revenue from Eudemons Online.

The revenue derived from overseas markets for the three months ended 30 June 2014 was approximately RMB26.6 million, representing a decrease of approximately 9.3% as compared to approximately RMB29.4 million for the three months ended 31 March 2014. The decrease in revenue derived from overseas markets was mainly due to the decrease in revenue from various games.

### Cost of revenue

Cost of revenue for the three months ended 30 June 2014 was approximately RMB21.9 million, representing an increase of approximately 3.8% as compared to approximately RMB21.1 million for the three months ended 31 March 2014. The increase was mainly due to the increase in server leasing fee and server depreciation.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Gross profit

Our gross profit for the three months ended 30 June 2014 was approximately RMB208.2 million, representing an increase of approximately 6.2% as compared to approximately RMB196.0 million for the three months ended 31 March 2014.

The gross profit margin for the three months ended 30 June 2014 was approximately 90.5%, which represented a slight increase of approximately 0.2% as compared with the three months ended 31 March 2014.

### Other income and gains

Other income and gains for the three months ended 30 June 2014 were approximately RMB41.3 million, representing a decrease of approximately 12.9% as compared with the three months ended 31 March 2014. The decrease in other income and gains was mainly due to offset of the (i) increase in interest income; (ii) increase in government grant income; (iii) increase in server rental income; and (iv) decrease in exchange gain on foreign currencies.

### Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2014 were approximately RMB33.6 million, representing an increase of approximately 15.3% as compared with the three months ended 31 March 2014. The increase in selling and marketing expenses was mainly due to the increase in advertising and promotional expenses.

### Administrative expenses

Administrative expenses increased by approximately 26.0% to approximately RMB71.6 million for the three months ended 30 June 2014 as compared with the three months ended 31 March 2014, which was mainly due to the increase in (i) legal and professional fees for merger and acquisition; (ii) depreciation and amortisation; (iii) rental expense; and (iv) staff costs.

### Development costs

Development costs increased by approximately 26.2% to approximately RMB51.7 million for the three months ended 30 June 2014 as compared with the three months ended 31 March 2014, which was mainly due to the increase in staff costs.

### Other expenses

Other expenses for the three months ended 30 June 2014 were approximately RMB16.5 million, representing an increase of approximately 771.2% as compared with three months ended 31 March 2014. The increase in other expenses was mainly due to the increase in (i) donation; and (ii) trade receivable written off as uncollectible.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Net gain on derivative financial instrument

Net gain on derivative financial instrument decreased by approximately 42.1% to approximately RMB2.7 million for the three months ended 30 June 2014 as compared with the three months ended 31 March 2014.

### Finance costs

Finance costs slightly increased by approximately 1.3% to approximately RMB1.1 million for the three months ended 30 June 2014 as compared with the three months ended 31 March 2014.

### Taxation

Taxation for the three months ended 30 June 2014 was approximately RMB12.5 million, which dropped by approximately 67.0% as compared with the three months ended 31 March 2014.

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

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2014 was approximately RMB63.8 million, representing a decrease of approximately 19.9% as compared to approximately RMB79.7 million for the three months ended 31 March 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

Second Quarter of 2014 Compared to Second Quarter of 2013

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

	<b>Three months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited
	<b>RMB'000</b>	and restated)
		<i>RMB'000</i>
<b>Continuing operations</b>		
Revenue	<b>230,144</b>	224,159
Cost of revenue	<b>(21,888)</b>	(18,853)
Gross profit	<b>208,256</b>	205,306
Other income and gains	<b>41,255</b>	4,281
Selling and marketing expenses	<b>(33,590)</b>	(23,106)
Administrative expenses	<b>(71,645)</b>	(53,941)
Development costs	<b>(51,687)</b>	(37,550)
Other expenses	<b>(16,491)</b>	(1,577)
Share of (losses) profits of associates	<b>(145)</b>	20
Operating profit	<b>75,953</b>	93,433
Interest income on pledged bank deposit	<b>840</b>	1,896
Exchange (loss) gain on pledged bank deposit and secured bank borrowing	<b>(2,106)</b>	7,683
Net gain (loss) on derivative financial instrument	<b>2,737</b>	(8,015)
Net gain on held-for-trading investment	<b>61</b>	—
Finance costs	<b>(1,132)</b>	(1,507)
Profit before taxation	<b>76,353</b>	93,490
Taxation	<b>(12,547)</b>	(15,168)
Profit for the period from continuing operations	<b>63,806</b>	78,322
<b>Discontinued operations</b>		
Profit for the period from discontinued operations	<b>—</b>	75,966
Profit for the period	<b>63,806</b>	154,288
Profit (loss) for the period attributable to:		
– Owners of the Company	<b>63,830</b>	124,614
– Non-controlling interests	<b>(24)</b>	29,674
	<b>63,806</b>	154,288

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### *Continuing operations*

#### Revenue

Our revenue from online game and other business for the three months ended 30 June 2014 was approximately RMB230.1 million, representing an increase of approximately 2.7% as compared to approximately RMB224.2 million for the three months ended 30 June 2013.

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

	Three months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
<b>PRC</b>	<b>203,511</b>	<b>88.4</b>	198,315	88.5
<b>Overseas</b>	<b>26,633</b>	<b>11.6</b>	25,844	11.5
	<b>230,144</b>	<b>100.0</b>	224,159	100.0

The revenue derived from the PRC for the three months ended 30 June 2014 was approximately RMB203.5 million, representing an increase of approximately 2.6% as compared to approximately RMB198.3 million for the three months ended 30 June 2013. The increase in revenue derived from the PRC was mainly due to the increase in revenue from Eudemons Online.

The revenue derived from overseas markets for the three months ended 30 June 2014 amounted to approximately RMB26.6 million, representing an increase of approximately 3.1% as compared with the three months ended 30 June 2013. The increase in revenue derived from overseas markets was mainly due to the increase in revenue from various games.

#### Cost of revenue

Cost of revenue for the three months ended 30 June 2014 increased by approximately 16.1% to approximately RMB21.9 million as compared with the three months ended 30 June 2013. The increase was mainly due to the increase in server leasing fee and server depreciation.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Gross profit

Our gross profit for the three months ended 30 June 2014 was approximately RMB208.2 million, representing a slight increase of approximately 1.4% as compared to approximately RMB205.3 million for the three months ended 30 June 2013.

Gross profit margin for the three months ended 30 June 2014 was approximately 90.5%, which represented a slight decrease of approximately 1.1% as compared with the three months ended 30 June 2013.

### Other income and gains

Other income and gains for the three months ended 30 June 2014 were approximately RMB41.3 million, representing an increase of approximately 863.7% as compared with the three months ended 30 June 2013. The increase was mainly due to the increase in (i) interest income; (ii) government grant income; (iii) exchange gain; and (iv) server rental income.

### Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2014 increased by approximately 45.4% to approximately RMB33.6 million as compared with the three months ended 30 June 2013. The increase in selling and marketing expenses was mainly due to the increase in advertising and promotional expenses.

### Administrative expenses

Administrative expenses increased by approximately 32.8% to approximately RMB71.6 million for the three months ended 30 June 2014 as compared with the three months ended 30 June 2013. The increase in administrative expenses was mainly due to the increase in (i) depreciation and amortisation; (ii) legal and professional fees for merger and acquisition; (iii) rental expense; and (iv) low value consumables.

### Development costs

Development costs increased by approximately 37.6% to approximately RMB51.7 million for the three months ended 30 June 2014 as compared with the three months ended 30 June 2013. The increase in development costs was mainly caused by the increase in staff costs.

### Other expenses

Other expenses for the three months ended 30 June 2014 were approximately RMB16.5 million, which represented an increase of approximately 945.7% as compared with the three months ended 30 June 2013. The increase in other expenses was mainly due to the increase in (i) donation; and (ii) trade receivable written off as uncollectible.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Net gain on derivative financial instrument was approximately RMB2.7 million for the three months ended 30 June 2014, whereas, net loss on derivative financial instrument for the three months ended 30 June 2013 was approximately RMB8.0 million.

### Finance costs

Finance costs decreased by approximately 24.9% to approximately RMB1.1 million for the three months ended 30 June 2014 as compared with the three months ended 30 June 2013, which was mainly due to the decrease in the amount of bank borrowing.

### Taxation

Taxation for the three months ended 30 June 2014 dropped by approximately 17.3% to approximately RMB12.5 million as compared with the three months ended 30 June 2013, which was due to the decrease in taxable profit.

### *Continuing and discontinued operations*

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

Profit for the period attributable to the owners of the Company for the three months ended 30 June 2014 was approximately RMB63.8 million, representing a decrease of approximately RMB60.8 million as compared with approximately RMB124.6 million the three months ended 30 June 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (4) NON-GAAP FINANCIAL MEASURES

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

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

	Period ended		Three months ended		
	30 June 2014 RMB'000	30 June 2013 RMB'000	30 June 2014 RMB'000	31 March 2014 RMB'000	30 June 2013 RMB'000
Non-GAAP operating profit	204,308	411,924	83,162	121,146	236,468
Non-GAAP profit	153,719	327,246	70,615	83,104	186,406
Non-GAAP profit attributable to owners of the Company	<u>155,652</u>	<u>292,977</u>	<u>70,639</u>	<u>85,013</u>	<u>156,732</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## (5) BUSINESS REVIEW

During the period under review, the Group continued to build upon its success over the past few quarters as it made significant progress in its MMORPG and mobile games business and pushed forward with the development of its online education business. The Group continued to focus on leveraging its world class research and development (R&D) team, its rich accumulation of mobile internet know-how, its outstanding track record in successfully building and scaling multiple online/mobile businesses and its entrepreneurial corporate culture to develop cutting-edge products in the mobile internet space for global users.

### Development of existing MMORPGs

During the period under review, the Group offered a wide range of quality MMORPG products to players, leveraging its in-house R&D and creative strengths as well as its innovative corporate culture.

By introducing new expansion packs and providing regular upgrades for its game contents, the Group committed to keeping its gamers engaged. The expansion packs and upgrades introduce new and innovative virtual items and in-game quests. The strategy extends the lifespan of games and generates stable cash flows for the Group.

In April 2014, the Group officially launched beta testing of the Chinese expansion pack for Eudemons Online (魔域), Salvation of the Shadow\* (暗黑龍騎 • 浩劫), which includes a new Shadow Knight class to enhance the appeal of the game to players. Conquer Online (征服), another flagship games of the Group, celebrated its 11th anniversary in April 2014 by providing new game tasks to players as a reward for their support over the years. In April 2014, Spanish and French versions of Wrath of the Trojans\* (勇士崛起), an expansion pack for Conquer Online (征服) were released. The expansion pack has helped extend the lifespan of the game by providing players with new and exciting in-game experiences.

During the period under review, the Group focused on R&D and its online game operations in a number of promising markets in countries and regions with potential. The Group will make use of its many years of experience in overseas markets to rejuvenate the non-Chinese language versions of its online games to increase their popularity.

### Games under development

The Group focused on strengthening its pipeline while at the same time expanding its existing online games portfolio.

#### *COS\* (英魂之刃)*

COS\* (英魂之刃), the Group's first micro-client in-house developed multiplayer online battle arena game, began beta testing and is expected to launch in late 2014 or early 2015. The game has demonstrated very strong traction and popularity amongst players and as a result, the Group expects COS\* (英魂之刃) will be able to begin accounting for an increasing amount of revenue contribution in the coming quarters. At the same time, mobile and overseas versions are currently in development.

\* For identification purpose only

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

### Mobile games business

During the period under review, the Group released new expansion packs for most of its mobile games in an effort to extend their lifespan and attract new players. These new expansion packs included ones designed for Celestial Saga\* (戰蒼穹), a 2.5D action role play game developed in-house, and Crazy Tribe\* (瘋狂部落), an action role playing game. An Arabic Android version of the Group's first turn-based role playing mobile game, The Pirate\* (大海盜), was launched in June 2014.

The Group believes that it can leverage its large user base and popularity in the MMORPG market to incubate mobile game users. In May 2014, the first open testing began for Eudemons Online Pocket Version\* (魔域口袋版), the mobile version of Eudemons Online (魔域) whose core gameplay includes monster breeding and group fighting. Mobile versions of the Group's flagship games are expected to both enhance the core brand and attract players to the Group's mobile offerings. Eudemons Online Pocket Version\* (魔域口袋版) has been adapted to meet the needs of mobile phone users while maintaining typical playing methods used in online games. The game's official launch is expected in the third quarter this year. The Group also began closed-beta testing of Blade & Sword\* (最江湖) in May 2014, a role playing game based on martial arts.

### Online and Mobile Education

Product development, content partnership, and strategic partnership discussions for the online and mobile education business continued to progress during the quarter. The Group has already soft launched its K-12 educational tablet, which is a first beta-version for trial testing purpose as we continue to develop and enhance its functionalities, features and content.

On the vocational education front, earlier this year the Group established a strategic partnership with a renowned educational university in an effort to create a comprehensive online and mobile learning platform for the vocational education segment in China. NetDragon will act as the developer for the online and mobile platform and will provide content creation services, data analytics and platform operation services.

NetDragon signed a cooperation agreement with Xinhuanet Co., Ltd. to build a nationwide public service online education platform. The platform will include a series of courses covering employee internet training, continuing education for civil servants and employee food safety training.

In May 2014, NetDragon donated RMB10 million to a renowned university in support of research and development initiatives which the Group believes will be complementary to its education strategy.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Online and Mobile Education (Cont'd)

#### *Strategic merger with Cherrypicks*

On 3 June 2014, NetDragon entered into a sale and purchase agreement to acquire Cherrypick's mobile solution business. Cherrypicks is a leading enterprise in mobile technology and mobile marketing in the Asia Pacific region. NetDragon has agreed to pay an aggregate amount up to US\$30.5 million. The Group believed this strategic merger will add to the mix a team of a world-class, innovative mobile solutions developers with strong readiness to build cutting edge mobile products for global markets in areas including enterprise software, mobile marketing, mobile commerce and mobile education.

The acquisition was completed on 21 July 2014. Further details of the Sale and Purchase Agreement and the Acquisition are set out in the Group's announcement dated 3 June 2014 and 21 July 2014 respectively.

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

The Haixi Animation Creativity City project was initiated by Changle Western Taiwan Straits Creative Valley (長樂海西創意谷), with the Group providing construction and planning services. This is a key project for Fujian Province, as well as a key project for the Linkonggang Economic Zone in Fuzhou City. Construction began in 2013. The Project covers an integrated industrial chain of animation creativity from research and development in animation, to exchange, experience, animation derivatives and elite education. During the period under review, the following progress was made on the three phases of construction:

- I Phase I covers an area of 247 mu. It is used by the Group for research and development exchange and quality control development. Currently, several main buildings have been constructed, including 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 exceeding RMB300 million. At present, operations have commenced with resident staff.
- II Phase II covers an area of 297 mu. This is the core animation research center. It has a gross floor area of approximately 250,000 square meters and total investment exceeds RMB600 million. The landmark Enterprise\* (企業號) was completed in August 2011 with Group employees already living there on a full time basis. The Group has also constructed an integrated "NetDragon Community (網龍公社)" for work and employee residences. A few other buildings are under construction within the area.
- III Phase III covers an area of 495 mu. It will host projects on game development and animation. The land applications are being processed at the moment.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Online and Mobile Education (Cont'd)

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

Another site covering 105 mu has been granted to the Group for commercial and residential uses, including Haixi Animation Valley. The residential units will be sold to employees after completion of the project. The land grant application is being processed at the moment.

The Group places great emphasis on education. It is planning to construct a new Changle campus for Fuzhou Software Technology Vocational College, with a student enrolment of approximately 8,000 and covering an area of 536 mu. The land grant application has been submitted for approval and is being processed. Planning, design and site selection have been completed for the project. Once operations begin, the project will create an industry cluster effect together with the three phases of Haixi Animation Creativity City. Production will support learning and research while the research input of the vocational college will support production in the Haixi Animation Creativity City. Construction of the Changle project will help to form a complete high-tech industry cluster and animation industrial chain for technological research and development, applications and production in the area. The Group believes this creative new town will serve to anchor a new zone for innovation along the south-eastern coast of China.

### Corporate Milestones and Awards for the first half of 2014

#### **Year 2014**

#### **Corporate Milestones/ Recognitions**

May

- Fujian NetDragon Websoft Co., Ltd. 「福建網龍計算機網絡信息技術有限公司」 ("NetDragon (Fujian)") was awarded the "Plaque of Honour - 2013 Top 10 Provincial Cultural Enterprises"\* 「2013年度省文化企業十強牌匾」 by the Fujian Province Cultural Reform and Development Work Leading Group 「福建省文化改革發展工作領導小組」
- NetDragon (Fujian) was honoured as the "Top 30 Cultural Enterprises in the PRC at the Sixth Presentation Ceremony"\* 「第六屆全國文化企業三十強」 jointly organized by the Guang Ming Daily (光明日報) and Economic Daily (經濟日報)

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## (6) LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2014, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB3,687.4 million (31 December 2013: RMB4,463.0 million), out of which approximately RMB108.4 million (31 December 2013: RMB107.4 million) has been pledged to bank to secure bank borrowing.

As at 30 June 2014, the Group had net current assets of approximately RMB3,522.5 million as compared with approximately RMB3,776.0 million as at 31 December 2013.

## (7) GEARING RATIO

The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.02 (31 December 2013: 0.02). As at 30 June 2014, total bank borrowing of the Group amounted to approximately RMB111.9 million (31 December 2013: RMB104.7 million) was fixed rate loan.

## (8) FOREIGN CURRENCY RISKS

The Group operates mainly in the PRC. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB. However, the Group also has operations in Hong Kong and the United States of America ("USA") and the business transactions conducted there during the period were mainly denominated and settled in HKD and USD respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner. In this respect, our Directors consider there is no significant currency mismatch in our operational cashflows and we are not exposed to any significant foreign currency exchange risk in our operation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (9) CREDIT RISKS

As at 30 June 2014, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

## (10) 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 30 June 2014</b>	At 31 March 2014	At 30 June 2013
Research and development	<b>1,354</b>	1,246	1,137
Selling and marketing	<b>545</b>	497	471
Accounting, finance and general administration	<b>832</b>	542	546
Total	<b>2,731</b>	2,285	2,154

As at 30 June 2014, we had a total of 2,731 employees (31 March 2014 and 30 June 2013: 2,285 and 2,154, respectively), 766 of which were online game developers of the research and development department, represented approximately 28.0% of the total number of staff.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (11) PERFORMANCE EVALUATION

### Human resources

During the period under review, the Group achieved great progress in its human resources efforts.

1. The Group improved employment qualifications management. To cope with its future expansion and transition needs, the “M position management and development” project was developed with external consultancy institutions and the employment qualification and grades of the Group were reviewed and adjusted; Employment qualifications and standards for research and development planning and research and development process positions were optimized and improved, so as to better support staff training and selection and effectively inspire staff and lead the growth of staff.
2. On the basis of continuously driving the “Golden Handshake Plan” and project incentive, the Group continued to improve the existing remuneration system to enhance its competitiveness in the remuneration market. The Group participated in the remuneration surveys of several human resources consultancy institutions and welfare surveys of the same industry, which provided data support to some extent for the Group to understand the conditions of market remuneration and welfare and assess the internal pay levels.
3. The Group held appraisal events for 2014 in order to effectively inspire the Group’s benchmark figures and projects and reinforce the appraisal principle of “Fair, Justice, Open”, which provided strong support for the promotion of the Group’s values.

## (12) STAFF TRAINING

### Introduction of NetDragon University

NetDragon University is the Group’s training base for management and technical talents. As a powerful supporter and a key component of the Group’s overall strategies, NetDragon University is dedicated to providing professional and systematic training for the Group’s staff, and has nurtured many groups of high-level technical and management talents through effective organization of learning to increase the Group’s core competitiveness continuously.

### Achievements in the first half of 2014

In order to facilitate transition of the Company into a design-oriented company, in addition to business training models mainly consisting of training courses and workshops, accreditation was also adopted as a means to motivate business training, while promoting a new corporate culture and further enhancing the original business training of management training, technical training and development training at the same time.

As of to date, a total of 145 training sessions and workshops and approximately 5 accreditation sessions were organized with nearly 2,500 participants joined these programmes.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### “Accreditation” activities

The Group continued to implement the accreditation for safety technology in 2014, it was divided into monthly regular accreditation and departmental customized accreditation. During the period under review, over 400 persons have participated in the accreditation examinations and the passing rate was above 80%.

### “Course Training”

In respect of application of advanced management, the Group analysed its management posts of the programme development sequence and the product management sequence based on the introduced management consultation project for management posts, established the criterion for management posts and enhanced the management efficiency and capacity to change of the management staffs, which support the success of the transition strategy of the Group. In addition, trainees of the management trainee programme, a programme introduced by the Group, formed study groups and enhanced their management skills through self-learning, thus a reserve pool of management elites is built to accommodate the future development needs of the Group.

In respect of technical training, by carrying on the Group’s concept of transforming into a “company focusing on design”, NetDragon University officially kicked off the “Design Elite Practical Training Camp”, one of the training projects newly implemented this year, in January 2014. The programme aims to enhance and nourish the capabilities of our product designers for their greater contribution to new product development in the future.

To foster in-depth collaboration among teams, we carried out regular expanded team training in accordance with the strategy of the Group and the needs of various departments so as to achieve better team training and customize in-depth experience training.

To be in line with the e-learning trend and capitalize on our existing part-time lecturer resources, in the first phase, the Group provided five online programmes for the part-time lecturers to self-study together with offline workshops to facilitate the completion of their preparation of technical training courses and determination of assessment criteria so as to shorten the time required for new staff to integrate into our Group’s environment after the formulation of all our programmes.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### “Cultural Publicity and Guidance”

In promoting the Group’s new culture, assessment on the values of management, accreditation training, culture certification examinations for all employees, production of cultural micro videos and manager forums were organized for dissemination of culture and assist employees in understanding culture.

Expected results for the second half of 2014

In 2014, the NetDragon University will facilitate the commencement of the new certification programme to satisfy the strategic needs of the Group. Technological training will mainly focus on design training courses to improve the quality of training and promote the development of the Group’s design talents. Experiential training will be further developed from the original programme, large-scale development activities similar to orientation activities will be organized to facilitate in-depth exchange and collaboration among team members. The E-Learning online learning platform will continue to improve its function, in order to further enhance the online learning atmosphere and effectiveness, and to improve the operational efficiency of training.

## (13) CORPORATE CULTURE



网龙新文化  
NETDRAGON NEWCULTURE

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Innovation

Innovation is the driving force behind the success of the Group. We embrace changes, continuously explore and attempt new and more effective concepts and methods, in order to launch new technologies and new products.

### Customer comes first

Customer comes first is our philosophy in product design and services. Group staff have an acute judgment on market and customers. Through provision of technology and services, customer requirements are satisfied and steered quickly, and through continuous improvements in customer experience, we can create value for customers and acquire competitive advantages. Each staff will adhere to this concept even when providing services to other staff of the Group.

### Learning

Learning is a habit of every staff in the Group. We always have curiosity and the urge to learn. We will proactively invest time and effort in learning, apply the skills we have learnt and expand our capabilities. We are good at self-examination and draw conclusions from happenings around us, and are willing to share and exchange ideas with others to promote mutual teaching and learning.

### Pursuit of excellence

Pursuit of excellence is a working standard for our staff. We aim for high aspirations and excellence, self-challenge and surpassed expectations. We plan several steps ahead, striving to provide customers with the highest quality products and services, and constantly challenge our own potentials while doing our best.

### Passion

We are passionate about work and collaboration with colleagues. We consider our work as career and contribute our full efforts. We enjoy the satisfaction arised from work, we are optimistic and positive, and are able to disseminate such positive energy in the daily interactions with colleagues, together with mutual trust, support and encouragement.

### Fairness

Fairness is the working atmosphere we promote. The Group strives to create a working atmosphere with fair allocation, fair procedures, public information and mutual respect. Through a public supervision process, the Group ensures that results are fair and hopes that all employees can treat everything and everyone objectively and equally.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Striving

Striving is the personality of our staff. We are willing to show ourselves, capture opportunities, express opinions and thoughts, undertake responsibilities or participate in projects we are interested in, obtain resources and support, secure market opportunities, communicate frankly on development needs etc. We believe that if everyone is willing to “raise their hands”, the internal driving force within us will be stimulated to unite team efforts for broadening the Group’s business coverage.

## (14) PROSPECTS AND OUTLOOK

Looking ahead, the Group will continue to recruit and train industry talent to strengthen its R&D capabilities. While developing new titles to expand the game pipeline, the Group will continue to lengthen the life cycles of its existing games and maximize revenues by providing content updates and new differentiated versions of games in its portfolio. Meanwhile, the Group will identify emerging markets with strong potential and diversity its product portfolio, building on its overseas operational experience.

On the mobile side, the Group will focus on applying its R&D and operational experience with online games to the mobile games sector. The Group believes that it is in a strong position to capitalize on this promising industry with its intimate understanding of mobile users’ needs and by leveraging its deep R&D knowhow developed by successfully building and scaling its online/mobile businesses in the past.

At the same time, the Group will make the most optimal use of its capital resources to take advantage of strategic opportunities in online education and office-in-the-Cloud services in order to capture the rapid growth of both of these emerging industries.

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### MMORPGs

For existing online games, the Group will continue to provide gameplay updates and new versions to reinforce player loyalty. The Group plans to release brand new expansion packs for its flagship titles, Eudemons Online (魔域) and Conquer Online (征服), in the second half of 2014 including content enhancements. Expansion packs for Way of the Five\* (開心) and Zero Online (機戰) will meet the varied needs of users. The Group will continue to add to its pipeline to attract fans of different styles of games in addition to its current user base.

### *Tiger Knight\** (虎豹騎)

Tiger Knight\* (虎豹騎), a 3D war game of in-game competition and action developed by the Group, is based on the well-known Three Kingdoms period enjoyed by domestic and international players. During the period under review, the game was uploaded to a famous global platform, for testing in the first half of 2014, and won strong referral from community players. The game's first beta testing is expected in the second half of 2014.

### Mobile Games

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

Eudemons Online Pocket Version\* (魔域口袋版), a mobile version of Eudemons Online (魔域), is a free-to-play mobile game whose core gameplay styles include monster breeding and group fighting. Eudemons Online Pocket Version\* (魔域口袋版) has been adapted to meet the needs of mobile phone users while maintaining the typical playing methods of online games. It is believed that the game will deliver solid performance in the mobile game sector as the PC version of Eudemons Online (魔域) has accumulated huge number of players and popularity in the MMORPG market. The game began beta testing in May 2014 and an official launch is expected in the third quarter of 2014.

### *Blade & Sword\** (最江湖)

It is a 2.5D action role play martial arts mobile game developed using the Group's proprietary engine. The product is based on martial arts adventures, enabling players to experience a grand martial arts world. The game is currently at the closed-beta testing stage and is expected to launch in the second half of 2014.

### *Waku & Maou\** (微西遊)

It is a strategy-based mobile game with combined features of card games and turn-based games with scenic landscapes. It offers players an offbeat version of Journey to the West, a classic Chinese novel, with new noir-styled plot lines. Beta testing of the game is expected to begin in the third quarter of 2014.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Mobile Games (Cont'd)

#### *Fatal Fighter\** (全球快打)

It is a self-developed horizontal version of mobile combat game involving special abilities. The game integrates a number of popular elements in dazzling scenes to deliver a vivid fighting experience. The game will begin beta testing in the second half of 2014 with an Arabic version expected to launch in the fourth quarter of 2014.

#### *Martial Overlord\** (武魂天下)

Martial Overlord\* (武魂天下) is a 3D in-house developed martial arts mobile action game. This game provides a subversive gaming experience to players with a special martial arts soul breeding system, delicate scenes and a real-time fights mode. The game will begin beta testing in August 2014.

### Online and Mobile Education

The K-12 education tablet's software and hardware will be fine-tuned and enhanced as user feedback is compiled from its soft launch. The educational tablet will provide an adaptive, motivational learning platform where students can learn at their own pace, understand their own learning progress in different subjects and rectify knowledge gaps. It will also provide access to rich educational content, allow for real-time communication with teachers, provide parents and teachers a way to monitor their child's progress and sync seamlessly with the Open Cloud-Based Education Platform. The Group expects to officially launch the tablet in 2015. With its deep experience in the development and operation of games, NetDragon is confident that the educational tablet will empower effective learning for students in a transformational way and generate new revenue streams.

The Group's vocational education business will focus on platform and product development, content creation and fostering strategic partnerships for the rest of the year. The Group believes that the education platforms that it is developing for its partners will be part of an online and mobile education ecosystem which, together with the K-12 education tablet and the Open Cloud Education Platform, will become an integrated total-solution online and mobile platform for the learning population at large.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### Conclusion

During the second quarter of 2014, the Group continued to build upon its success over the past few quarters as it made significant progress in its MMORPG and mobile games business and pushed forward with the development of the online education business. The Group's flagship online games continue to perform well demonstrating its world class game design and development capabilities. The Group will continue to devote resources towards MMORPG game development and rejuvenating existing titles with expansion packs and in-game events to keep gamers engaged. The Group's mobile games business also continued to progress smoothly during the quarter as it enters the final stages of development on a number of mobile releases. Last but not least, NetDragon continued to make meaningful progress in its online education business and is working in full speed to develop exciting and innovative educational applications, a rich content repository and value-enhancing strategic partnerships for its K-12 educational tablets and Open Cloud-Based Education Platform.

## (15) INTERIM DIVIDEND

On 22 August 2014, the Board has resolved to declare an interim dividend of HKD0.20 per share for the six months ended 30 June 2014 (2013: HKD0.20 per share). The interim dividend will be paid to the shareholders whose names appeared on the register of members of the Company on 8 September 2014. It is expected that the interim dividend will be distributed on or about 23 September 2014.

## (16) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 8 September 2014 to Wednesday, 10 September 2014, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2014, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 5 September 2014.

## OTHER INFORMATION

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

As at 30 June 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:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or	Approximate percentage of shareholding
			amount of registered capital contributed	
			<i>(Note 1)</i>	
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through a controlled corporation	253,982,257(L)	49.93%
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	255,510,057(L)	50.23%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	253,982,257(L)	49.93%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan <i>(Note 4)</i>	The Company	Beneficial owner and beneficiary of a trust	13,190,019(L)	2.59%
Chao Guowei, Charles <i>(Note 5)</i>	The Company	Beneficial owner	818,000(L)	0.16%
Lee Kwan Hung <i>(Note 6)</i>	The Company	Beneficial owner	1,306,019(L)	0.26%
Liu Sai Keung, Thomas <i>(Note 7)</i>	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 37.56% 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 37.56% 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 49.22% 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 1,727,800 shares, interest held as a beneficiary of a trust of 11,306,019 shares and the rest being underlying shares of interest of 156,200 share options granted by the Company.
5. Chao Guowei, Charles is interested in 0.16% of the issued share capital of the Company which is represented by the underlying shares of interest of 818,000 shares options granted by the Company.
6. Lee Kwan Hung is interested in 0.26% of the issued share capital of the Company which is represented by personal interest of 588,019 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.
7. Liu Sai Keung, Thomas is interested in 0.24% of the issued share capital of the Company which is represented by personal interest of 417,019 shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 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

## OTHER INFORMATION

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

So far as is known to the Directors, as at 30 June 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	191,078,100(L)	37.56%
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 30 June 2014.

# OTHER INFORMATION

## SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the "Main Board Share Option Scheme") to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 30 June 2014 are as follows:

Grantee	Date of grant	Exercise Price <i>HKD</i>	As at 1 January 2014	Number of share options			As at 30 June 2014	
				Granted	Exercised	Lapsed		
<b>Executive Directors</b>								
Liu Dejian	07.12.2009	4.33	320,000	—	320,000	—	0	
	22.07.2011	4.60	213,000	—	56,800	—	156,200	
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	—	56,800	—	156,200	
Chen Hongzhan	07.12.2009	4.33	320,000	—	320,000	—	0	
	22.07.2011	4.60	213,000	—	56,800	—	156,200	
<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	—	100,000	—	200,000	
	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	—	80,000	—	80,000	
	28.04.2011	4.80	8,016,784	—	1,328,875	530,600	6,157,309	
	22.07.2011	4.60	604,463	—	—	—	604,463	
	23.04.2012	5.74	1,601,667	—	106,800	162,550	1,332,317	
	06.07.2012	6.53	588,075	—	500	—	587,575	
	12.09.2012	7.20	83,000	—	—	27,500	55,500	
	16.01.2013	11.164	700,000	—	8,400	104,600	587,000	
	25.04.2014	14.66	—	—	556,000	—	—	556,000
	<b>Total</b>			<u>17,170,989</u>	<u>556,000</u>	<u>2,434,975</u>	<u>825,250</u>	<u>14,466,764</u>

*Notes:*

1. On 25 April 2014, 556,000 share options were granted to the employee of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 25 April 2014 (the trading day on the grant of the share options) was HKD14.66.
2. During the period under review, 910,400 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 30 June 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.

## OTHER INFORMATION

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

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

As at 30 June 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 six months ended 30 June 2014.

### DISCLOSURE OF CHANGE OF INFORMATION OF DIRECTOR UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of information of a director of the Company is as follows:

On 17 April 2014, Mr. Chao Guowei, Charles has been appointed as the chairman of the board of directors of Weibo Corporation, a publicly listed company on Nasdaq and has also been appointed as a director of Leju Holdings Limited, a publicly listed company on the New York Stock Exchange on the same date.

### 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 interim report.

### 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 interim results for the six months ended 30 June 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 six months ended 30 June 2014, the Company repurchased a total of 2,379,000 shares on the Stock Exchange at an aggregate consideration of HKD34,864,540 before expenses.

Details of the shares repurchase are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid <i>HKD</i>
		Highest	Lowest	
		<i>HKD</i>	<i>HKD</i>	
June 2014	2,379,000	15.10	13.96	34,864,540

By Order of the Board

**NetDragon Websoft Inc.**

**Liu Dejian**

*Chairman*

Hong Kong, 22 August 2014

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Deloitte.**  
德勤

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

(incorporated in the Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Inc. (the “Company”) and its subsidiaries set out on pages 40 to 68, which comprise the condensed consolidated statement of financial position as of 30 June 2014, and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONCLUSION

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

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

22 August 2014

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		<b>Six months ended 30 June</b>	
		<b>2014</b>	2013
		<b>(Unaudited)</b>	(Unaudited and restated)
		<b>RMB'000</b>	RMB'000
	<i>NOTES</i>		
<b>Continuing operations</b>			
Revenue	4	<b>447,235</b>	436,153
Cost of revenue		<b>(42,972)</b>	(38,519)
Gross profit		<b>404,263</b>	397,634
Other income and gains	4	<b>88,603</b>	17,817
Selling and marketing expenses		<b>(62,720)</b>	(46,573)
Administrative expenses		<b>(128,520)</b>	(137,650)
Development costs		<b>(92,641)</b>	(73,039)
Other expenses		<b>(18,384)</b>	(3,497)
Share of (losses) profits of associates		<b>(233)</b>	17
Operating profit		<b>190,368</b>	154,709
Interest income on pledged bank deposit		<b>1,681</b>	3,821
Exchange (loss) gain on pledged bank deposit and secured bank borrowing		<b>(6,269)</b>	1,897
Net gain (loss) on derivative financial instrument		<b>7,463</b>	(2,359)
Net gain on held-for-trading investment		<b>1,154</b>	—
Finance costs		<b>(2,249)</b>	(3,357)
Profit before taxation		<b>192,148</b>	154,711
Taxation	6	<b>(50,589)</b>	(22,533)
Profit for the period from continuing operations	7	<b>141,559</b>	132,178
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	8	<b>—</b>	138,492
Profit for the period		<b>141,559</b>	270,670
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		<b>582</b>	(625)
Total comprehensive income for the period		<b>142,141</b>	270,045

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited and restated)
	<b>RMB'000</b>	RMB'000
	<i>NOTE</i>	
Profit (loss) for the period attributable to:		
– Owners of the Company	<b>143,492</b>	236,401
– Non-controlling interests	<b>(1,933)</b>	34,269
	<b>141,559</b>	270,670
Profit for the period attributable to owners of the Company:		
– from continuing operations	<b>143,492</b>	132,244
– from discontinued operations	<b>–</b>	104,157
Profit for the period attributable to owners of the Company	<b>143,492</b>	236,401
(Loss) profit for the period attributable to non-controlling interests:		
– from continuing operations	<b>(1,933)</b>	(66)
– from discontinued operations	<b>–</b>	34,335
(Loss) profit for the period attributable to non-controlling interests	<b>(1,933)</b>	34,269
Total comprehensive income (expense) attributable to:		
– Owners of the Company	<b>144,074</b>	235,776
– Non-controlling interests	<b>(1,933)</b>	34,269
	<b>142,141</b>	270,045
	<b>RMB cents</b>	RMB cents
<b>Earnings per share</b>		
From continuing and discontinued operations		
– Basic	<b>28.24</b>	46.84
– Diluted	<b>28.00</b>	41.12
From continuing operations		
– Basic	<b>28.24</b>	26.20
– Diluted	<b>28.00</b>	25.85

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# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	NOTES	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	11	689,977	532,684
Prepaid lease payments	12	379,853	185,819
Investment property	12	15,875	15,725
Intangible assets		5,772	—
Interests in associates	13	6,974	1,299
Available-for-sale investments		5,000	5,000
Loan receivables		14,408	16,041
Deposits made for acquisition of property, plant and equipment		18,049	16,769
Other receivable		—	60,969
Goodwill		12,534	12,534
Deferred tax assets		54	54
		<b>1,148,496</b>	<b>846,894</b>
<b>Current assets</b>			
Prepaid lease payments	12	2,708	2,583
Loan receivables		532	713
Trade receivables	15	42,477	41,718
Other receivables, prepayments and deposits	14	154,472	69,770
Held-for-trading investment		21,889	20,735
Amounts due from related companies	16	3,427	4,564
Amounts due from associates	16	41	—
Other financial asset	21	4,341	—
Pledged bank deposit	18	108,352	107,368
Bank deposits		2,687,829	3,051,289
Bank balances and cash		891,250	1,304,355
		<b>3,917,318</b>	<b>4,603,095</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	NOTES	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
<b>Current liabilities</b>			
Trade and other payables	17	128,148	152,837
Deferred income		24,943	26,553
Amount due to an associate	19	151	—
Secured bank borrowing	18	111,925	104,672
Other financial liability	21	—	3,122
Income tax payable		129,665	539,927
		<b>394,832</b>	827,111
<b>Net current assets</b>			
		<b>3,522,486</b>	3,775,984
<b>Total assets less current liabilities</b>			
		<b>4,670,982</b>	4,622,878
<b>Non-current liabilities</b>			
Other payables	20	2,248	—
<b>Net assets</b>			
		<b>4,668,734</b>	4,622,878
<b>Capital and reserves</b>			
Share capital	22	37,638	37,664
Share premium and reserves		4,628,925	4,577,478
Equity attributable to owners of the Company		4,666,563	4,615,142
Non-controlling interests		2,171	7,736
		<b>4,668,734</b>	4,622,878

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 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	-	-	-	-	-	-	-	-	-	-	-	236,401	236,401	34,269	270,670
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	-	-	(625)	-	(625)	-	(625)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	(625)	236,401	235,776	34,269	270,045
Shares issued upon exercise of share options	229	20,284	-	-	-	-	-	-	-	(6,738)	-	-	13,775	-	13,775
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	10,504	-	-	10,504	-	10,504
Recognition of equity-settled share-based payments granted by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	69,294	69,294
Conversion of redeemable convertible preferred shares	-	-	-	408,261	-	-	-	-	-	-	-	-	408,261	188,614	596,875
Contributions from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	3,990	3,990
Awarded shares vested to employees	-	-	-	-	-	-	-	-	1,445	(2,846)	-	1,401	-	-	-
Final dividend for 2012 paid	-	-	-	-	-	-	(81,947)	-	-	-	-	(391)	(82,338)	-	(82,338)
Interim dividend for 2013	-	-	-	-	-	-	81,090	-	-	-	-	(81,090)	-	-	-
At 30 June 2013 (unaudited)	37,761	1,090,128	3,717	410,470	10,045	172,895	81,090	673	(5,780)	31,906	(58,804)	205,726	1,979,827	318,321	2,298,148
At 1 January 2014	37,664	1,036,480	4,139	-	10,045	202,885	79,977	673	(5,780)	29,777	(59,309)	3,278,591	4,615,142	7,736	4,622,878
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	-	143,492	143,492	(1,933)	141,559
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	582	-	582	-	582
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	-	-	582	143,492	144,074	(1,933)	142,141
Repurchase and cancellation of shares	(176)	(27,609)	176	-	-	-	-	-	-	-	-	(176)	(27,785)	-	(27,785)
Shares issued upon exercise of share options	150	13,476	-	-	-	-	-	-	-	(4,437)	-	-	9,189	-	9,189
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	6,273	-	-	6,273	-	6,273
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)
Contributions from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	300	300
Acquisition of non-wholly owned subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	58	58
Final dividend for 2013 paid	-	-	-	-	-	-	(79,977)	-	-	-	-	(353)	(80,330)	-	(80,330)
Interim dividend for 2014	-	-	-	-	-	-	80,751	-	-	-	-	(80,751)	-	-	-
At 30 June 2014 (unaudited)	37,638	1,022,347	4,315	-	10,045	202,885	80,751	673	(4,335)	28,810	(58,727)	3,342,161	4,666,563	2,171	4,668,734

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

		<b>Six months ended 30 June</b>	
		<b>2014</b>	2013
		<b>(Unaudited)</b>	(Unaudited)
NOTE		<b>RMB'000</b>	RMB'000
	<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(315,442)</b>	391,966
	<b>INVESTING ACTIVITIES</b>		
	Acquisitions of subsidiaries	24 (5,243)	—
	Acquisitions of investments in associates	(4,900)	—
	Purchase of property, plant and equipment	(172,723)	(101,945)
	Purchase of prepaid lease payments	(195,287)	(58,800)
	Proceeds on disposal of prepaid lease payments	—	11,760
	Proceeds on return of capital from interests in associates	—	5,600
	Deposits paid for acquisition of property plant and equipment	(13,748)	—
	Placement of bank deposits	(1,967,950)	(226,050)
	Withdrawal of bank deposits	2,348,916	192,678
	Withdrawal of pledged bank deposit	—	192,367
	Other investing activities	27,684	(478)
	<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>16,749</b>	15,132
	<b>FINANCING ACTIVITIES</b>		
	Contribution from a non-controlling shareholder	300	—
	Proceeds from issue of redeemable convertible preferred shares	—	109,888
	Proceeds from shares issued upon exercise of share options	9,189	13,775
	Dividends paid	(80,330)	(82,338)
	Repayment of bank borrowing	—	(179,660)
	Repayment of amount due to an associate	—	(5,600)
	Payment for repurchase of shares	(27,785)	—
	Other financing activities	(4,848)	4,848
	<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(103,474)</b>	(139,087)
	<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(402,167)</b>	268,011
	<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>	<b>(10,938)</b>	(1,039)
	<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH</b>	<b>891,250</b>	1,409,797

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

## 3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

## 4. REVENUE, OTHER INCOME AND GAINS

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited
	<b>RMB'000</b>	and restated)
		<b>RMB'000</b>
<b>Continuing operations</b>		
<b>Revenue</b>		
Online game revenue	<b>447,235</b>	436,153
<b>Other income and gains</b>		
Government grants <i>(Note)</i>	<b>9,589</b>	9,873
Interest income	<b>45,683</b>	6,341
Net foreign exchange gain	<b>24,510</b>	—
Gain on disposal of held-for-trading investment	<b>—</b>	229
Game implementation income	<b>4,949</b>	551
Rental income, net of negligible outgoing expenses	<b>249</b>	246
Server rental income	<b>2,932</b>	—
Others	<b>691</b>	577
	<b>88,603</b>	17,817

*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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 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 games 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 restated 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>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited
	<b>RMB'000</b>	and restated)
		RMB'000
Segment revenue	<b>447,235</b>	436,153
Segment profit	<b>190,535</b>	230,277
Unallocated income and gains	<b>64,864</b>	7,164
Unallocated expenses	<b>(63,018)</b>	(82,747)
Share of (losses) profits of associates	<b>(233)</b>	17
Profit before taxation	<b>192,148</b>	154,711

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) profits of associates, net gain (loss) 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 5. SEGMENT INFORMATION (Cont'd)

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

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Online game	<b>4,768,070</b>	5,129,373
Unallocated	<b>297,744</b>	320,616
	<b>5,065,814</b>	5,449,989

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

	<b>Six months ended 30 June</b>	
	<b>2014 (Unaudited) RMB'000</b>	2013 (Unaudited and restated) RMB'000
<b>Continuing operations</b>		
The tax charge comprises:		
Hong Kong Profits Tax	<b>3,860</b>	3,382
The PRC Enterprise Income Tax ("EIT")	<b>46,698</b>	19,060
Taxation in other jurisdiction	<b>31</b>	91
	<b>50,589</b>	22,533

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the six months ended 30 June 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 rates prevailing in the relevant jurisdiction.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 7. PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited
	<b>RMB'000</b>	and restated)
		<b>RMB'000</b>
Profit for the period from continuing operations has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	<b>3,844</b>	4,430
Other staff costs		
Salaries and other benefits	<b>151,834</b>	116,108
Contributions to retirement benefits schemes	<b>12,153</b>	10,387
Share-based payments expense	<b>10,799</b>	53,501
	<b>178,630</b>	184,426
Amortisation of intangible assets (included in cost of revenue)	<b>88</b>	817
Release of prepaid lease payments (included in administrative expenses)	<b>1,128</b>	729
Depreciation of property, plant and equipment	<b>27,777</b>	22,478
Total depreciation and amortisation	<b>28,993</b>	24,024
Amount written off as uncollectible	<b>5,208</b>	—
Operating lease rentals in respect of:		
– rented premises	<b>5,833</b>	4,790
– computer equipment	<b>17,162</b>	16,665
Net foreign exchange gain	<b>(18,241)</b>	(1,989)
Loss on disposal of property, plant and equipment	<b>199</b>	174

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 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 six months ended 30 June 2013 was analysed as follows:

	Six months ended 30 June 2013 (Unaudited) RMB'000
Profit for the period	<u>138,492</u>
Attributable to:	
– Owners of the Company	104,157
– Non-controlling interests	<u>34,335</u>
	<u>138,492</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 8. DISCONTINUED OPERATIONS (Cont'd)

The results of the mobile Internet business for the six months ended 30 June 2013 was as follows:

	Six months ended 30 June 2013 (Unaudited) RMB'000
Revenue	346,688
Cost of revenue	<u>(48,773)</u>
Gross profit	297,915
Other income and gains	4,586
Selling and marketing expenses	(28,046)
Administrative expenses	(49,788)
Development costs	(36,909)
Other expenses	(10,279)
Share of losses of associates	(722)
Share of profit of a joint venture	<u>918</u>
Operating profit	177,675
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	200,637
Taxation	<u>(62,145)</u>
Profit for the period from discontinued operations	<u><u>138,492</u></u>

## 9. DIVIDENDS

On 13 June 2014, a dividend of Hong Kong dollars ("HKD") 0.20 per share (2013: HKD0.20 per share) was paid to shareholders as the final dividend for 2013. The aggregated amount of the final dividend paid in current interim period amounted to approximately RMB80,330,000 (2013: RMB82,338,000).

The directors have determined that an interim dividend of HKD0.20 per share (2013: HKD0.20 per share), amounting to approximately HKD101,733,000 (equivalent to approximately RMB80,751,000) in aggregate, will be paid to the shareholders of the Company whose names appear in the register of members on 8 September 2014.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 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>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Earnings for the purpose of basic earnings per share:		
– profit for the period attributable to the owners of the Company	<b>143,492</b>	236,401
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>	<b>–</b>	(26,009)
Earnings for the purpose of diluted earnings per share	<b>143,492</b>	210,392

	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>'000</b>	'000
Weighted average number of shares in issue during the period, for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<b>508,031</b>	504,677
Effect of dilutive potential shares from the Company's share option scheme	<b>4,510</b>	6,975
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)	<b>512,541</b>	511,652

*Note:* The computation of diluted earnings per share for the period ended 30 June 2013 had taken into account the effect of share awards and redeemable convertible preferred shares issued by 91 Wireless Websoft Limited.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 10. EARNINGS PER SHARE (Cont'd)

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:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited
	<b>RMB'000</b>	and restated)
		<i>RMB'000</i>
Earnings for the purpose of basic earnings per share:		
Profit for the period attributable to the owners of the Company	<b>143,492</b>	236,401
Less: profit for the period from discontinued operations attributable to the owners of the Company	<u>—</u>	<u>104,157</u>
Earnings for the purposes of calculating basic and diluted earnings per share from continuing operations	<b><u>143,492</u></b>	<b><u>132,244</u></b>

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 RMB20.64 cents and RMB15.27 cents, respectively, for the six months ended 30 June 2013, based on the profit attributable to the owners of the Company from discontinued operations of approximately RMB104,157,000 (and after deducting of adjustment to the share of profit of subsidiaries of approximately RMB26,009,000 for diluted earnings per share) and the denominators detailed above for both basic and diluted earnings per share from continuing operations.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2014, the deposits of approximately RMB12,468,000 were transferred to property, plant and equipment (six-month period ended 30 June 2013: Nil) and the Group spent approximately RMB172,723,000 (six-month period ended 30 June 2013: RMB101,945,000) for the acquisition of property, plant and equipment to expand its operations. The additions for the period mainly included RMB38,615,000 (six-month period ended 30 June 2013: RMB24,056,000) in office and computer equipment and RMB136,579,000 (six-month period ended 30 June 2013: RMB72,593,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 12. PREPAID LEASE PAYMENTS/INVESTMENT PROPERTY

During the period ended 30 June 2014, the Group spent approximately RMB195,287,000 (2013: RMB58,800,000) for the acquisition of prepaid lease payments to expand its buildings located in Fuzhou. The Group disposed of the prepaid lease payment of approximately RMB11,760,000 with the same amount of consideration for the period ended 30 June 2013 and no disposal made during the period ended 30 June 2014. The Group is in the process of obtaining the land use right certificates.

The Group's investment property as at 30 June 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 30 June 2014 and 31 December 2013 (no significant changes in fair value between 30 June 2013 and 31 December 2012). In estimating the fair value of the property, the highest and best use of the property is its current use.

## 13. INTERESTS IN ASSOCIATES

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Unlisted investments outside Hong Kong:		
Cost of investments	<b>7,630</b>	2,580
Share of post-acquisition losses	<b>(656)</b>	(423)
Contribution to a subsidiary of the Group	<b>(858)</b>	(858)
Withdrawal from a subsidiary of the Group	<b>858</b>	—
	<b>6,974</b>	1,299
Group's share of net assets of associates	<b>5,899</b>	1,083

## 14. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

Included in other receivables, prepayments and deposits, amount of approximately RMB61,528,000 (2013: RMB 60,969,000) represents the partial consideration of United State dollar ("USD") 10,000,000 arising from the disposal of 91 Group, which was held by the independent escrow agent at the end of the reporting period. Pursuant to the terms and conditions set out in the S&P Agreement as detailed in note 8, the amount is repayable at the expiry of eighteen months from the completion date of the Disposal and is reclassified as current asset during the period ended 30 June 2014. The Group does not hold any collateral over this balance.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 15. 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>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
0 - 30 days	<b>18,184</b>	22,806
31 - 60 days	<b>9,529</b>	5,088
61 - 90 days	<b>5,008</b>	10,211
Over 90 days	<b>9,756</b>	3,613
	<b>42,477</b>	41,718

## 16. AMOUNTS DUE FROM RELATED COMPANIES/ASSOCIATES

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 17. TRADE AND OTHER PAYABLES

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Trade payables	<b>4,873</b>	6,050
Accrued staff costs	<b>56,276</b>	70,214
Receipt in advance	<b>6,502</b>	20,065
Other tax payables <i>(Note)</i>	<b>8,893</b>	—
Other payables and accruals	<b>51,604</b>	56,508
	<b>128,148</b>	152,837

*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 USD13.168 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 30 June 2014, an amount of approximately RMB9 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>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
0 - 90 days	<b>2,966</b>	2,576
91 - 180 days	<b>821</b>	3,121
181 - 365 days	<b>684</b>	61
Over 365 days	<b>402</b>	292
	<b>4,873</b>	6,050

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 18. PLEDGED BANK DEPOSIT/SECURED BANK BORROWING

The secured bank borrowing is denominated in Australian dollar ("AUD"), 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.

## 19. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand.

## 20. 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 17. As at 30 June 2014, an amount of approximately RMB2,039,000, 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 in accordance with deferred payment agreement, are included as non-current liabilities.

## 21. OTHER FINANCIAL ASSET/LIABILITY

### Derivative not under hedge accounting

On 22 November 2013, the Group entered into foreign currency forward contract with a bank for a period of one year in relation to the pledged bank deposit and bank borrowing arrangement as mentioned in note 18.

Major terms of foreign currency forward contract for sale of USD as at 30 June 2014 and 31 December 2013 are as follows:

<b>Notional amount</b>	<b>Maturity</b>	<b>Exchange rate</b>
Sell USD18,151,000	5 September 2014	USD1: AUD0.9038

For the six months ended 30 June 2014, fair value gain of approximately RMB7,463,000 was recognised in the profit or loss (six months ended 30 June 2013: fair value loss of RMB2,359,000). The fair value of foreign currency forward contract is measured using quoted forward exchange rate at the end of reporting period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 22. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
<b>Authorised:</b>			
Ordinary shares of USD0.01 each			
At 1 January 2013, 31 December 2013 and 30 June 2014	1,000,000,000	10,000,000	75,771
<b>Issued and fully paid:</b>			
Ordinary shares of USD0.01 each			
At 1 January 2013	505,313,523	5,053,135	37,532
Shares issued upon exercise of share options	8,981,688	89,817	554
Repurchase and cancellation of shares	(5,685,500)	(56,855)	(422)
At 31 December 2013	508,609,711	5,086,097	37,664
Shares issued upon exercise of share options <i>(Note i)</i>	2,434,975	24,350	150
Repurchase and cancellation of shares <i>(Note ii)</i>	(2,379,000)	(23,790)	(176)
At 30 June 2014	508,665,686	5,086,657	37,638

*Notes:*

- (i) During the six months ended 30 June 2014, 2,434,975 share options were exercised and as a result of 2,434,975 ordinary shares were issued (2013: 8,981,688). Approximately RMB150,000 (2013: RMB554,000) and RMB13,476,000 (2013: RMB49,234,000) were recorded as share capital and share premium, respectively.
- (ii) During the six months ended 30 June 2014, the Company repurchased 2,379,000 (2013: 5,685,500) of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being recognised. The total amount incurred to acquire the shares was approximately RMB27,785,000 (2013: RMB83,020,000).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 23. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

In current interim period, options were granted on 25 April 2014. Details of such share options are as follows:

<b>Date of grant</b>	<b>Vesting period</b>	<b>Exercisable period</b>	<b>Outstanding at 30 June 2014</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	139,000
			<hr/> <u>556,000</u>

Movements in the share options granted on 25 April 2014 are as follows:

<b>Date of grant</b>	<b>Granted during period</b>	<b>Forfeited during period</b>	<b>Outstanding at 30 June 2014</b>
25 April 2014	<hr/> <u>556,000</u>	<hr/> <u>—</u>	<hr/> <u>556,000</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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

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

The fair value of the options granted on that date was approximately RMB3,225,000. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD14.66
Exercise price	HKD14.66
Risk-free interest rate	1.848 - 1.957%
Expected option life	7.67 - 8.42 years
Expected volatility	56.31%
Expected dividend yield	2.729%

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

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

	<b>Number of share options</b>
Outstanding as at 1 January 2014	17,170,989
Granted during the period	556,000
Forfeited during the period	(825,250)
Exercised during the period	<u>(2,434,975)</u>
Outstanding as at 30 June 2014	<u><u>14,466,764</u></u>

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HKD13.89.

The Group recognised the total expenses of approximately RMB4,464,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB5,014,000) 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 RMB240,000 for the period ended 30 June 2014 (six months period ended 30 June 2013: Nil) in relation to these share options granted.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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

### (ii) Share award scheme by the Company

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

The Group recognised the total expenses of approximately RMB1,569,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB5,490,000) in relation to share award.

317,400 share awards were vested and released during the six months ended 30 June 2014 (six months ended 30 June 2013: 317,397). The number of share awards outstanding at 30 June 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 six months ended 30 June 2014 (six months ended 30 June 2013: RMB34,684,000) 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 30 June 2014 (six months ended 30 June 2013: 2,472,009 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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

### (iv) Shares awarded by a subsidiary of the Company (Cont'd)

The Group recognised the total expenses of approximately RMB7,030,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB34,610,000) 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 RMB637,000 for the six months ended 30 June 2014 (six months period ended 30 June 2013: Nil) in relation to these share awarded.

## 24. ACQUISITION OF SUBSIDIARIES

On 29 May 2014, the Group entered into an agreement with an independent third party to acquire 70% equity interests of Catch Investments Limited and its subsidiary, Just Me Co., Limited (collectively referred to as the "Catch Group") at a consideration of RMB5,250,000. The transaction was completed on 20 June 2014. The Catch Group is engaged in the provision of artiste management services.

On 31 December 2013, the Group entered into an agreement with an independent third party to acquire 51% equity interests of 恒康（福建）醫療信息服務有限公司 at nil consideration. The transaction was completed on 23 June 2014. 恒康（福建）醫療信息服務有限公司 is principally engaged in the provision of medical information enquires.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	<i>RMB'000</i>
<b>Non-current asset</b>	
Intangible asset	5,245
<b>Current assets</b>	
Trade receivables	118
Bank balances and cash	7
<b>Current liabilities</b>	
Other payables	(3)
<b>Net assets acquired</b>	<u>5,367</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 24. ACQUISITION OF SUBSIDIARIES (Cont'd)

### Non-controlling interests

The non-controlling interests (30%) in the Catch Group and (49%) in 恒康（福建）醫療信息服務有限公司 recognised at the acquisition date were measured by reference to the proportionate share of fair value of identifiable assets and liabilities of the Catch Group and 恒康（福建）醫療信息服務有限公司 at the dates of acquisition.

### Gain on bargain purchase on acquisition of subsidiaries

	<i>RMB'000</i>
Consideration paid in cash	5,250
Add: Non-controlling interests	58
Less: Net assets acquired	<u>5,367</u>
	<u>(59)</u>

### Net cash outflow on acquisition of subsidiaries

	<i>RMB'000</i>
Consideration paid in cash	5,250
Less: cash and cash equivalent balances acquired	<u>7</u>
	<u>5,243</u>

The directors of the Company are of the opinion that the above subsidiaries acquired during the period ended 30 June 2014 had no significant contribution to the Group's revenue or results for the period ended 30 June 2014.

Had the acquisition been completed on 1 January 2014, the directors of the Company are of the opinion that the above subsidiaries had no significant contribution to the Group's revenue or results for the period ended 30 June 2014.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 25. RELATED PARTY TRANSACTIONS

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

The Group had the following significant related party transactions and balances during the period.

<b>Name of related parties</b>	<b>Relationship</b>
Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851")	DJM Holding Ltd., the Company's immediate holding company, and Mr. Liu Dejian, executive director and one of the controlling shareholders of the Company, together have 100% equity interest in this entity
福州天亮網絡技術有限公司 ("Fuzhou Tianliang")	Fuzhou Tianliang is wholly owned by Ms. Lin Hang, acting under the instruction of controlling shareholders of the Company
江蘇博得網絡科技有限公司 ("Jiangsu BoDe")	A joint venture which the Group held 51% equity interest in this entity prior to the Disposal
廈門易用軟件技術有限公司 ("廈門易用")	An associate which the Group holds 42.9% equity interest in this entity

<b>Nature of transactions</b>	<b>Six months ended 30 June</b>	
	<b>2014 (Unaudited) RMB'000</b>	<b>2013 (Unaudited) RMB'000</b>
Rental charges by Fuzhou 851	<b>3,408</b>	3,408
Service fee at recreation centre paid to Fuzhou 851	<b>2,500</b>	3,250
After-sales service fee paid to Fuzhou Tianliang	<b>5,093</b>	8,172
Technical service fee paid to Fuzhou Tianliang	<b>1,091</b>	1,242
Interest received on loan advanced to key management of the Group	<b>(80)</b>	(39)
Technical service fee received from Jiangsu BoDe	<b>—</b>	(2,840)
Server rental income received from Jiangsu BoDe	<b>—</b>	(466)
	<b>—</b>	<b>—</b>

Included in loan receivables at 30 June 2014 were loans advanced to key management of approximately RMB1,000,000 (31 December 2013: RMB1,000,000). The loans carry fixed interest at the rate of 4.48% per annum (31 December 2013: 4.48% per annum).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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

Compensation of key management personnel

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

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Salaries, allowances and other short-term employee benefits	<b>2,714</b>	2,056
Contribution to retirement benefits schemes	<b>58</b>	39
Share-based payments expense	<b>2,482</b>	20,362
	<b>5,254</b>	22,457

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

## 26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 26. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Cont'd)

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30 June 2014 RMB'000	31 December 2013 RMB'000				
Held-for-trading investment classified as financial asset	21,889	20,735	Level 1	Quoted bid prices in an active market	N/A	N/A
Other financial asset/ (other financial liability) classified as financial asset/ (financial liability)	4,341	(3,122)	Level 2	Discounted cash flow. Future cash flow are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

There is no transfer between Level 1 and Level 2 during both periods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 27. CAPITAL COMMITMENTS

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

	<b>30 June 2014 (Unaudited) RMB'000</b>	31 December 2013 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<b>107,936</b>	150,920
Capital expenditure in respect of acquisition of equity investment authorised but not contracted for in the condensed consolidated financial statements	<b>211,629</b>	28,800

## 28. SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

On 3 June 2014, NetDragon BVI, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Chiu Tsz Kiu Jason Felix (the "Vendor"), pursuant to which the Vendor conditionally agreed to sell and NetDragon BVI conditionally agreed to acquire the one ordinary issued share (the "Sale Share") of USD0.01 in the share capital of Cherrypicks International Holdings Limited ("Cherrypicks") for an aggregate consideration of up to USD30,500,000 (equivalent to RMB188,216,000) (the "Consideration"). The Consideration was partly satisfied by cash and partly satisfied by the allotment and issue of 2,626,204 new shares of the Company credited as fully paid up at an issue price of HKD13.3653 (the "Consideration Shares"). The Consideration Shares were allotted and issued pursuant to the general mandate to allot and issue shares representing 20% of the issued share capital of the Company as at 23 May 2014 granted to the directors by the shareholders at the annual general meeting of the Company on 23 May 2014. NetDragon BVI also agreed to pay a capital commitment in the amount of equivalent to USD4,000,000 (equivalent to RMB24,684,000) less legal and professional fees, costs and expenses incurred by NetDragon BVI in the negotiation, preparation, execution and completion of the Sale and Purchase Agreement, to Cherrypicks upon completion. The completion of sale and purchase of the Sale Share took place on 21 July 2014. The directors are in the process of ascertaining the financial impact arising on this transaction.

Further details of the acquisition are set out in the announcement of the Company dated 3 June 2014 and 21 July 2014 respectively.