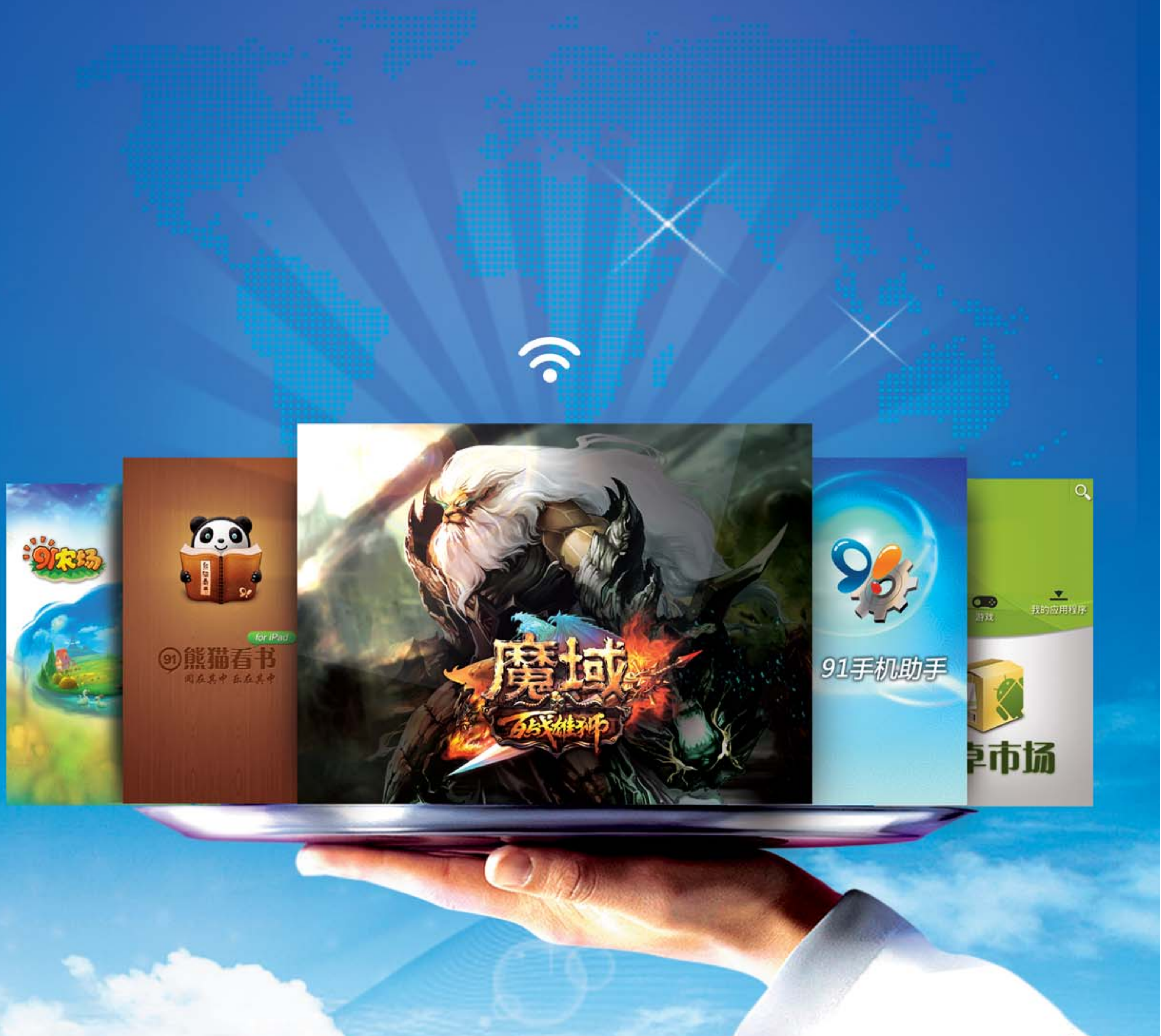
2011
ANNUAL REPORT



NETDRAGON WEBSOFT INC.
網龍網絡有限公司
(incorporated in the Cayman Islands with limited liability) Stock Code : 777

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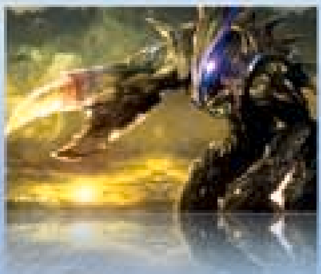
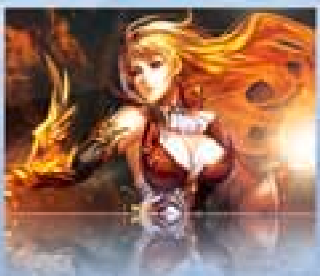
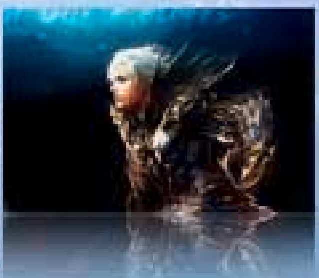
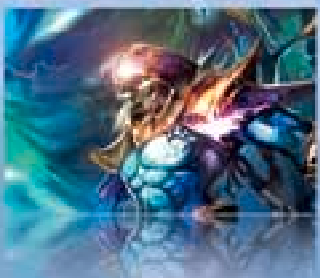





CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Dejian *(Chairman)*
Mr. Liu Luyuan *(Chief Executive Officer)*
Mr. Zheng Hui
Mr. Chen Hongzhan

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung
Mr. Liu Sai Keung, Thomas

COMPLIANCE OFFICER

Mr. Liu Luyuan

COMPANY SECRETARY

Ms. Tam Hon Shan, Celia, *HKICPA, FCCA*

QUALIFIED ACCOUNTANT

Ms. Tam Hon Shan, Celia, *HKICPA, FCCA*

AUDIT COMMITTEE

Mr. Chao Guowei, Charles *(Chairman of the Committee)*
Mr. Lee Kwan Hung
Mr. Liu Sai Keung, Thomas

REMUNERATION COMMITTEE

Mr. Lee Kwan Hung *(Chairman of the Committee)*
Mr. Chao Guowei, Charles
Mr. Liu Sai Keung, Thomas

NOMINATION COMMITTEE

Mr. Liu Sai Keung, Thomas *(Chairman of the Committee)*
Mr. Chao Guowei, Charles
Mr. Lee Kwan Hung

SHARE AWARD SCHEME COMMITTEE

Mr. Lee Kwan Hung *(Chairman of the Committee)*
Mr. Liu Sai Keung, Thomas
Ms. Tam Hon Shan, Celia
Mr. Wu Chak Man

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Ms. Tam Hon Shan, Celia

HONG KONG LEGAL ADVISER

Sidley Austin

PRC LEGAL ADVISER

Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of Communications (Fuzhou Branch)
Bank of America (Branch of Diamond Bar, CA)
The Hong Kong & Shanghai Banking Corporation
(Nathan Road Branch)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code

777

Listing Date

24 June 2008

Stock Name

NETDRAGON

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2209, 22nd Floor
Shun Tak Centre, West Tower
200 Connaught Road Central
Hong Kong

COMPANY WEBSITE

www.nd.com.cn

CORPORATE PROFILE

NetDragon Websoft Inc. ("NetDragon" or the "Company"), together with its subsidiaries (collectively referred to as the "Group") was listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 November 2007 under the stock code of "8288". On 24 June 2008, the Company's listing was successfully transferred to the Main Board (the "Main Board") of the Stock Exchange under a new stock code of "777". Also, the Group's stock became a constituent stock of the Morgan Stanley Capital International China Index as from late May 2008.

NetDragon was established in 1999 and has been one of the leading online game and mobile Internet application developers and operators in the People's Republic of China (the "PRC"). Leveraging on its advanced core technology of research and development, acute market insight and extensive global perspective, NetDragon launched a series of original online games and mobile Internet software products with intellectual property rights, and has become a forerunner in the PRC online game and mobile Internet application and a pioneer in overseas market expansion. In recent years, the Company was awarded as the "Excellent Employer – Excellent Chinese Company for employee"(「卓越僱主－中國最適宜工作的公司」) by Fortune China in 2007 and 2009. The Company was also selected in the "List of Potential Enterprises in China"(中國潛力企業榜) by Forbes China in 2008 and 2009, and won the "Award for Overseas Development of Chinese Games"* (「中國遊戲海外拓展獎」) and "Top 10 Games Developers in China"* (「中國十佳遊戲開發商」) promulgated by GAPP and Information Industry Department, and the Company was awarded as the "Enterprise of Outstanding Internet Culture"*(「優秀網絡文化企業」) by Ministry of Culture as well as a series of national prizes.

NetDragon endeavours in self-developed games and strives to promote the development of online game industry. To date, it has successfully launched and been operating various flagship online games with diversified themes, including Eudemons Online, Conquer Online, Way of the Five, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Era of Faith, Tian Yuan, Disney Fantasy Online, CJ7 Online and Monster & Me. Meanwhile, NetDragon continues to research and develop games for different types of players and further expand its product lines. Currently, the Group has a number of new games in the pipeline, including Dungeon Keeper™ Online, Absolute Force* and TRANSFORMERS Online, all of which will be launched in 2012 and onwards.

Since the commencement of mobile Internet sector in 2008, NetDragon has established the most professional teams of program development, art design and business operation. SNS open platform, 91 Mobile Products* (91手機產品) and App Store covering various mobile phone platforms have been launched to the market. 91 Panda Reader*(91熊貓看書), 91 PC Suite*(91手機助手), 91 Mobile Platform*(91手機門戶)and HIAPK*(安卓網)are favourite products for the mobile users. 91 Panda Reader*(91熊貓看書)is one of the best cross-platform book reader softwares. 91 PC Suite*(91手機助手)is one of the common management tools for current intelligent mobile users. HIAPK*(安卓網)has become one of the largest Android communities in the PRC. At the same time NetDragon is developing the SNS big community and will launch Gamecenter and open up SDK, in order to enrich our product lines with more favourable applications.

* *For identification purpose only*

In order to satisfy the changing needs of global users and development of the market, NetDragon has launched a series of application softwares of image management, instant messaging, wealth management, information management, entertainment and SNS, including 91 Vocabulary*(91背單詞)、91 Fortune-telling*(91算命)、91 Money*(91理財)、91 Note*(91筆記)、91U、91 Picture*(91炫圖)、91 Photo*(91看圖)、91 Forum*(91壇子)、91 Reader*(91看書)、Happy Learning*(開心學習), to provide more abundant games and entertainment services for users.

Overseas, NetDragon has become the vanguard of the PRC online game enterprises to enter the international market with successful operating results. It is one of the largest PRC online game operators in the US market and covers game markets of ten (10) languages including English, French, Spanish and Arabic. NetDragon has taken part in the E3 exhibition in the US, which is the "Oscar" of the global game industry, and has carried out cooperation with various international famous partners, such as, Disney Interactive Media Group ("Disney") and Electronic Arts Inc. ("EA"). NetDragon has taken a great step of domestic online game to expand overseas markets.

NetDragon has been devoting in enhancing originality and innovation of research and development as its core competitiveness for years. Technologically, NetDragon has researched and developed its own 2D and 2.5D engines, and has made substantial investment in launching the motion capture device and the most advanced 3D game development engine in the industry and possesses the technologies for developing different types of online games. In terms of talent training, NetDragon always believes that recruiting and training talents are investments. Hence, it provides competitive remuneration package to retain talents. It also owns Fujian TQ Digital Inc. ("TQ Digital"), which is a leading online game development team in China. As for game operation, NetDragon has engaged Ogilvy and Mather, the top media company in the world, to provide guidance on professional marketing and promotion as well as CRM customer relationship marketing in China to enhance the professional level of our game operation. With regard to corporate management, NetDragon promotes the corporate culture of "happiness, learning, innovation and sincerity", and creates a "wonderland" full of joy where games can be found in management, working and learning environment. We employ ERP management system to monitor and supervise the whole development process of games and strive to create a favourable learning environment with our technical support of Internet.

* *For identification purpose only*

GROUP FINANCIAL SUMMARY

The consolidated statement of comprehensive income and the condensed consolidated statement of financial position of the Group for the past five financial years, as extracted from the Group's published audited consolidated financial statements, are set out below:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
Revenue	645,214	595,981	621,836	531,772	**760,974**
Cost of revenue	(36,863)	(68,017)	(84,325)	(66,333)	**(75,032)**
Gross profit	608,351	527,964	537,511	465,439	**685,942**
Other income and gains	8,321	58,020	57,807	60,864	**38,156**
Selling and marketing expenses	(80,844)	(103,599)	(133,460)	(101,993)	**(140,340)**
Administrative expenses	(50,090)	(112,673)	(163,926)	(182,022)	**(210,941)**
Development costs	(37,253)	(89,823)	(201,461)	(162,234)	**(159,269)**
Other expenses	(21,404)	(19,555)	(1,959)	(10,392)	**(11,594)**
Net gain (loss) on derivative financial instruments	—	32,231	(15,214)	—	**—**
Net (loss) gain on financial assets designated as fair value through profit or loss	—	(30,385)	18,431	—	**(17,792)**
Finance costs	—	—	—	—	**(3,806)**
Share of losses of jointly controlled entities	—	(276)	(724)	—	**—**
Share of losses of associates	—	—	—	—	**(581)**
Profit before taxation	427,081	261,904	97,005	69,662	**179,775**
Taxation	(52,244)	(22,635)	(10,381)	(34,769)	**(44,532)**
Profit for the year	374,837	239,269	86,624	34,893	**135,243**
Earnings per share					
– Basic (RMB cents)	85.01	44.49	16.57	6.64	**25.85**
– Diluted (RMB cents)	N/A	44.49	16.56	6.64	**25.85**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000 (Restated)	2010 RMB'000	**2011** **RMB'000**
Non-current assets	66,572	132,608	184,170	272,897	**340,833**
Current assets	1,778,088	1,387,802	1,367,941	1,287,043	**1,555,987**
Current liabilities	(75,278)	(66,599)	(96,290)	(108,783)	**(226,319)**
Non-current liabilities	—	—	—	—	**(171,607)**
Non-controlling interests	(112)	—	484	540	**458**
Equity attributable to owners of the Company	1,769,270	1,453,811	1,456,305	1,451,697	**1,499,352**

Dear shareholders,

On behalf of the board of directors of NetDragon (the "Director(s)"), I am pleased to present the annual report of the Group for the year ended 31 December 2011.

OUR MISSION

The Group is dedicated to be China's leading company in the online games and mobile Internet industries through innovation and hard working. We offer a wide range of fabulous online games and mobile Internet applications and content to general public and create comfortable working environment for our staff. The Group is committed to delivering higher return for shareholders.

Since its establishment in 1999, the Group has more than ten years of experience in online games development and operation. We have launched many online games which are well received by the market and online game players. Based on our successful experience, we are confident that we can maintain our leading position in the online games industry in the PRC.

The Group realized the huge potential of mobile Internet market and made a bold move to introduce mobile Internet business since 2008. Leveraging on the first-mover advantage and market-oriented strategy, the Group has developed itself as an important enterprise in the mobile Internet market in the PRC.

CHAIRMAN'S STATEMENT

OUR ACHIEVEMENTS

In 2011, through the efforts of our staff, our online games and mobile Internet business recorded satisfactory results. Total revenue of the Company for 2011 was approximately RMB761.0 million, an increase of approximately 43.1% when compared with 2010. Profits of the Company for 2011 was approximately RMB135.2 million, an increase of approximately 287.6% when compared with 2010. The Group had net cash balance of approximately RMB1.47 billion. The strong financial position enabled the Group to strengthen its R&D capacity to diversify game portfolio. The Group can also finance future investment by its internal resources when opportunities arise.

Despite the slowdown growth of China's online games market during the year, NetDragon successfully attracted more players by creating more features for Eudemons Online and Conquer Online. The Group maintained its leading position in the international online games market by expanding its coverage to Arab and Turkish geographical areas where has huge development potential since 2010. The new market is an additional source of stable income of online games business. On the other hand, the Group realized the potential of mobile market and proactively enhanced its game portfolio by introducing mobile versions of its MMORPG. The Group successfully attracted new players from all over the world who can play our games whenever they have leisure time.

For our mobile Internet business, the Group focused on the development of its mobile Internet apps distribution platforms, 91 PC Suite and HiMarket, enabling to scale up acquisition of users for the platforms to take commanding positions in this industry in China. In addition, due to the significant performance of 91 Panda Reader and 91 Panda Home, our mobile Internet business's user base increased significantly. The Group also consolidated its leading position in the mobile Internet market in China by establishing joint ventures with leading firms in the mobile Internet market. The proportion of revenue from mobile business to the total revenue of the Group has been increasing, reflecting the significance of mobile business in the Group.

The Group also closely monitored the market to seek opportunities to develop the scope of business. All our new businesses made significant progress and laid a solid foundation for the long term growth of the Group. Construction of upper structure of TQ Building of Haixi Animation Creativity City was completed and will be ready for occupation by the fourth quarter of 2012. Our staff will enjoy a much more convenient and comfortable working environment.

The Group placed great emphasis on the development of its competitiveness. We were granted a number of awards in 2011. We were one of the three China enterprises awarded at the Most Admired Knowledge Enterprise ("MAKE") award ceremony held in Seoul, Korea. We were also awarded the Innovative Creation of Online Game award at the Internet Culture Expo of China 2011 and the Excellent Publisher of China award by General Administration of Press and Publication of the People's Republic of China.

OUR FUTURE

Looking ahead, our major online games will still generate stable income for the Group. Major upcoming 3D productions, Dungeon Keeper™ Online and TRANSFORMERS Online will be our new sources of revenue in the MMORPG sector. Other online games, in particular, Absolute Force, icombo and Witty Cards, will contribute to the growth of revenue of the Group. The Group will make further investment to improve our R&D capacity and to build up a more efficient operation platform so as to maintain our leading position in the online games industry in the PRC.

In 2012, the mobile Internet business of the Group will see a big leap. NetDragon will further expand its user base and enhance its brand image so as to consolidate its market position. We will develop effective sales and distribution channels to realize significant growth in revenue of the mobile business. We are confident in the Group's short-term development and its long term future.

DIVIDEND

We are committed to provide investors with satisfactory returns. Having considered the financial position, cash flow, operation and capital requirement and the development plans of the Group, the Board has proposed to distribute a final dividend of HKD0.12 per share for the financial year ended 31 December 2011 as a return for the support of shareholders. The Group is of the view that its sound financial position and strong cash flow are favorable for its future development.

APPRECIATION

Our staff are creative and innovative and are our precious treasure in the ever-changing online games industry. I would like to thank our management and staff for their dedication in 2011. And last but not least, I wish to express my sincerest gratitude to our shareholders, investors and business partners for your continuing support to NetDragon.

Liu Dejian
Chairman

Hong Kong, 26 March 2012

* *For identification purpose only*

(1) INDUSTRY REVIEW

CHINESE ONLINE GAME INDUSTRY

Supported by the huge Internet user base, the Chinese online game market still has ample room for growth. According to the information of China Internet Network Information Center, or CINIC, as at the end of December 2011, the number of Internet users in China reached 513 million[1], with 55.80 million[1] new Internet users throughout the year, while penetration rate of the Internet increased by 4 percentage points to 38.3%[1]. Meanwhile, according to the statistics of the China Game Publication Association, CGPA, the actual sales revenue of the PC online game market amounted to RMB42.85 billion[2] in 2011, representing an increase of 32.4%[2] compared to 2010.

In respect of government policies, the State initially proposed to develop culture industry as a pillar industry of domestic economy in the "Twelfth Five-Year Plan", and the departments at all levels formulated more favorable supportive policies for the development of game industry with various laws and regulations further improved. This laid a solid policy foundation for the development of online game industry and reduced uncertainties in government policies.

Large-scale online games have maintained their dominating position in the market in terms of product categories. In 2011, the actual sales revenue of the online game market amounted to RMB36.69 billion[2], representing 85.6%[2] of the actual sales revenue of the PC online game market of China during the year. Compared with 2010 when traditional themes of swordsman, faerie and fairy tale dominated, online games about fantasy, modern city, business strategy, social network service (SNS) emerged in 2011 and have become a new driver of the growth of online industry. In addition, the trends of "device-free", "removable" and "portable" of the game industry facilitated the strong growth of web-based game and mobile game market. The actual sales revenue of Chinese mobile online game market amounted to RMB1.70 billion[2] in 2011, representing an increase of 86.8%[2] compared to 2010.

After years of development, the competitiveness of large-scale enterprises, in particular listing companies, in the industry have been significantly improved. As the entry barriers of the online game market are rising, market share of Chinese online game industry tends to be dominated by large enterprises. In response to competition, game enterprises have attached more importance on developing high-quality online games. A variety of competitive unique large-scale online game products have been launched with substantial investments (if available) after stage-by-stage operation, trial and rectification, conclusion and improvement. Meanwhile, talent shortage in high-end games as a result of the intensifying competition, has further exacerbated the battle for talent in the industry, and headhunting has happened frequently. Consequently, enterprises are required to be more cohesive and to improve their personnel training.

Lastly, with the rapid development of game industry, the Chinese government and online game enterprises have been more aware of the significance of "going out" to development of the industry and enterprise. In this context, in addition to North America and Southeastern Asia, the countries and regions with high Internet penetration rates, satisfactory network infrastructure and large population, such as South America, Middle East and Russia, are becoming new export target markets of Chinese online game enterprises.

Sources:

[1] *29th Statistics Report on the Development of the Internet of China (第29次中國互聯網絡發展狀況統計報告), China Internet Network Information Center*

[2] *2011 Research Report on Chinese Game Industry (2011年中國遊戲產業調查報告), China Game Publication Association, CGPA*

CHINESE MOBILE INTERNET INDUSTRY

In 2011, the mobile Internet industry of China experienced an overall rapid growth. According to the information of China Internet Network Information Center, the number of mobile Internet users in China had reached 356 million[①] as at the end of December 2011. Among which, the usage rate for mobile Internet of the high and medium income group recorded a relatively higher growth. The users group with income of RMB2,000 or above accounted for 41.2%[①] of the total number of users compared with 33.0%[①] in 2010. The affordability of mobile Internet users has increased steadily. Meanwhile, the penetration rate of mobile Internet users among all mobile users was only 36.5%[①], showing that there are room for the growth of mobile Internet users.

In 2011, the market scale of mobile Internet in China reached RMB39.31 billion[②], increased by 97.5%[②] compared with that in 2010. The mobile Internet industry has become dominated by the telecommunication operators, internet enterprises and terminal manufacturers. Their main strategies in competition are: the operators utilize their advantages in fundamental resources. By integrating the resources in industry chain, they have cooperated with internet enterprises or service providers to provide integrated products and services and charge in accordance with data usage or packages. The internet enterprises replicate their well-established internet products from desktop to mobile. They attract new customers by offering products free of charge, and explore new income sources. The terminal manufacturers put up barriers in respect of operation systems (such as iOS and Android), standardized applications (such as navigation) and application stores (such as App Store and Ovi), and gain profits from the sale of terminals and the commission from downloaded applications of the application stores. Currently, the major competition areas of these three segments are access to and subscribers of mobile Internet, including browsers for mobile, search engines for mobile, SNS, application stores, portals for mobile, client applications (such as instant message) and input methods for mobiles. With the boost of such industry, the telecommunication industry is expected to be affected significantly and face integration and reformation inevitably. Value curve of the mobile Internet industry chain will not only benefit telecommunication operators. The dominating position of the industry will be subject to the competition.

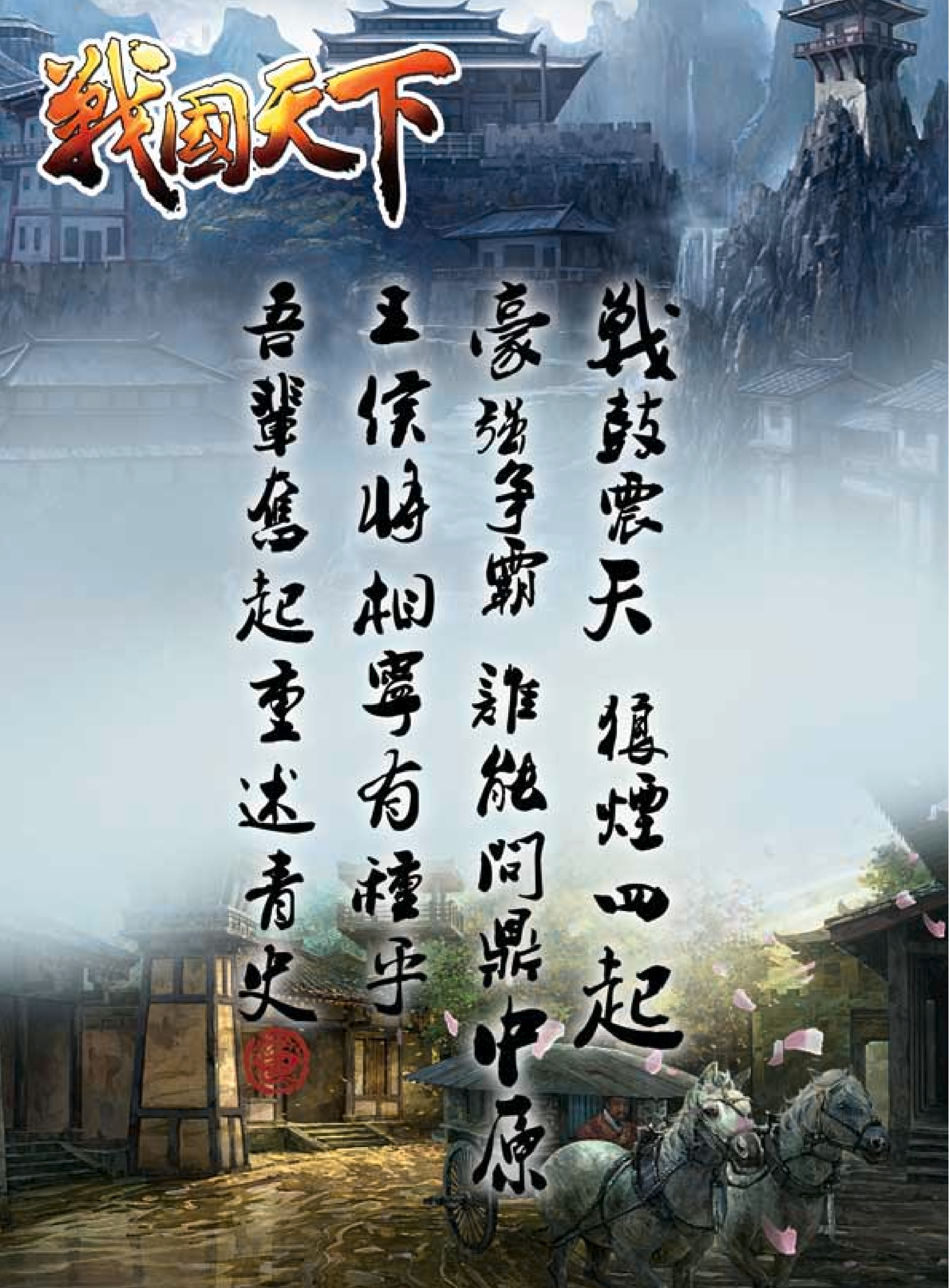
The mobile Internet business of China can be classified into three major business modes: firstly, replicating the business mode of the traditional internet business to the mobile terminals, in order to maintain a similar business mode of fixed internet on smart phones. For example, traditional internet products including browsers, search engines and online games have launched corresponding applications compatible to mobile Internet; secondly, developing mobile communications compatible to the internet, such as Fetion developed by China Mobile; thirdly, introducing innovative products which differentiate from traditional internet products by incorporating mobile online games and internet functions, such as mobile Web 2.0, mobile location-based service. These are the directions of development of the mobile Internet industry in the future.

In conclusion, the competition of mobile Internet operators will intensify in aspect of providing user friendly products. The mobile Internet market will be further opened and more cooperation will be seen as the operators strive to provide better services to their subscribers and solving their problems when using the mobile Internet services. The development of the industry will be supported by the mutual cooperation among segments of "fundamental facilities, platforms and applications", and returns for all parties will further boost as more new products are introduced in the future. "Differentiation", "bandwagon effect" and "long tail theory" will be the characteristics of the development of the industry.

Sources:

① *29th Statistics Report on the Development of the Internet of China (第29次中國互聯網絡發展狀況統計報告), China Internet Network Information Center*

② *2011 China Internet Market Research (2011年中國互聯網市場年度總結報告), iResearch Consulting Group*


战国天下
戰鼓震天 狼煙四起
豪強爭霸 誰能問鼎中原
王侯將相寧有種乎
吾輩奮起重述青史

(2) OPERATION INFORMATION

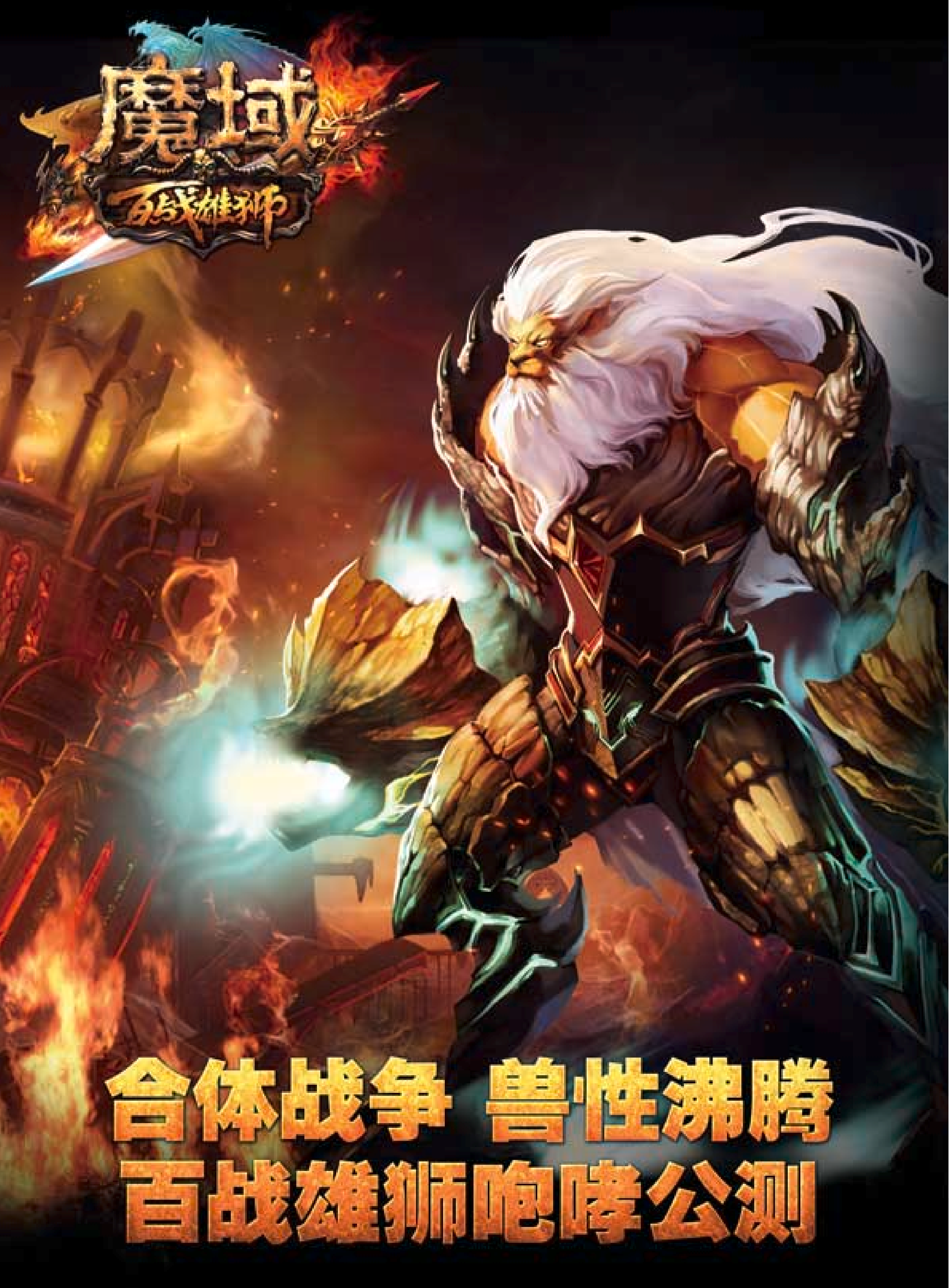
The following table sets out the breakdown of peak concurrent users (the "PCU") and average concurrent users (the "ACU") for our online games for periods indicated below *(Note)*:

	For the three months ended				
	31 December 2011	30 September 2011	30 June 2011	31 March 2011	31 December 2010
PCU	**612,000**	569,000	643,000	546,000	542,000
ACU	**310,000**	300,000	311,000	246,000	232,000

Note: As at 31 December 2011, our online games include Eudemons Online, Conquer Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online and other games.

The PCU for online games was approximately 612,000 for the three months ended 31 December 2011, representing an increase of approximately 7.6% from the three months ended 30 September 2011 and representing an increase of approximately 12.9% from the three months ended 31 December 2010.

We also recorded the ACU for online games of approximately 310,000 for the three months ended 31 December 2011, which represented an increase of approximately 3.3% from the three months ended 30 September 2011 and represented an increase of approximately 33.6% from the three months ended 31 December 2010.


魔域
百战雄狮
合体战争 兽性沸腾
百战雄狮咆哮公测

(3) FINANCIAL PERFORMANCE HIGHLIGHTS

YEAR ENDED 31 DECEMBER 2011

The following table sets forth the comparative figures for the years ended 31 December 2011 and 2010:

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Revenue	**760,974**	531,772
Cost of revenue	**(75,032)**	(66,333)
Gross profit	**685,942**	465,439
Other income and gains	**38,156**	60,864
Selling and marketing expenses	**(140,340)**	(101,993)
Administrative expenses	**(210,941)**	(182,022)
Development costs	**(159,269)**	(162,234)
Other expenses	**(11,594)**	(10,392)
Loss on changes in fair value of conversion option derivative	**(17,792)**	—
Finance costs	**(3,806)**	—
Share of losses of associates	**(581)**	—
Profit before taxation	**179,775**	69,662
Taxation	**(44,532)**	(34,769)
Profit for the year	**135,243**	34,893
Profit for the year attributable to:		
– Owners of the Company	**135,161**	34,949
– Non-controlling interests	**82**	(56)
	135,243	34,893

Revenue

Revenue increased by approximately 43.1% to approximately RMB761.0 million for the year ended 31 December 2011 from approximately RMB531.8 million for the year ended 31 December 2010.

Online game

Our online game revenue for the year ended 31 December 2011 was approximately RMB701.6 million, representing an increase of approximately 31.9% as compared to approximately RMB531.8 million for the year ended 31 December 2010.

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

	For the year ended			
	31 December 2011		31 December 2010	
	RMB'000	**% of online game revenue**	RMB'000	% of online game revenue
PRC	**572,470**	**81.6**	414,003	77.9
Overseas	**129,095**	**18.4**	117,769	22.1
	701,565	**100.0**	531,772	100.0

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The online game revenue derived from the PRC for the year ended 31 December 2011 was approximately RMB572.5 million, representing an increase of approximately 38.3% over the year ended 31 December 2010.

The online game revenue derived from overseas markets for the year ended 31 December 2011 was approximately RMB129.1 million, representing an increase of approximately 9.6% over the year ended 31 December 2010.

Mobile Internet business

The Group had commenced to establish the operation of the mobile Internet business in 2008 and it started to contribute revenue in early 2010. After three years of sustained investment and development in the mobile Internet business, it becomes another core business of the Group during the period under review. The proposed segregation of its mobile Internet business in 2011 helps the Group to maximize the potential valuation. For the year ended 31 December 2011, revenue generated from the mobile Internet business was approximately RMB59.4 million, representing approximately 7.8% of the total revenue.

While compared with mobile Internet business revenue, which was previously classified as "Other income and gains" for the year ended 31 December 2010 was approximately RMB6.7 million, representing an increase of approximately 792.6%.

Fourth Quarter of 2011

Revenue

Revenue for the fourth quarter of 2011 was approximately RMB217.2 million representing an increase of approximately 7.1% from the third quarter of 2011 and an increase of approximately 50.9% over the same period in 2010.

However, the online game revenue for the fourth quarter of 2011 was approximately RMB192.5 million, representing an increase of approximately 4.9% from the third quarter of 2011 and an increase of approximately 33.7% over the same period in 2010.

Besides, the mobile Internet business revenue for the fourth quarter of 2011 was approximately RMB24.7 million, representing an increase of approximately 28.4% from the third quarter of 2011 and an increase of approximately 489.5% over the same period in 2010, which was previously classified as "Other income and gains".

Cost of revenue

Cost of revenue for the fourth quarter of 2011 was approximately RMB 28.3 million, representing an increase of approximately 57.1% from the third quarter of 2011 and an increase of approximately 93.9% over the same period in 2010.

Other income and gains

Other income and gains of approximately RMB17.4 million were recorded for the fourth quarter of 2011, compared to other income and gains that of approximately RMB5.3 million and approximately RMB37.4 million for the third quarter of 2011 and the same period in 2010, respectively.

Meanwhile, as mentioned in the above paragraph headed "Revenue - Mobile Internet business", the revenue derived from mobile Internet business for the year ended 31 December 2011 had been re-classified as "Revenue", thus no comparative figures were presented in other income and gains during the period under review. For the fourth quarter of 2010, mobile Internet business income was approximately RMB4.2 million.

Selling and marketing expenses

Selling and marketing expenses for the fourth quarter of 2011 were approximately RMB46.3 million, representing an increase of approximately 34.9% from the third quarter of 2011 and an increase of approximately 90.6% over the same period in 2010.

Administrative expenses

Administrative expenses for the fourth quarter of 2011 were approximately RMB59.5 million, representing an increase of approximately 6.4% from the third quarter of 2011 and representing an increase of approximately 19.6% over the same period in 2010.

Development costs

Development costs for the fourth quarter of 2011 were approximately RMB47.4 million, representing an increase of approximately 30.6% from the third quarter of 2011 and a decrease of approximately 5.0% over the same period in 2010.

Other expenses

Other expenses for the fourth quarter of 2011 were approximately RMB5.0 million, representing an increase of approximately 29.6% from the third quarter of 2011 and a decrease of approximately 9.1% over the same period in 2010.

Profit for the period

Profit for the period for the fourth quarter of 2011 was approximately RMB7.7 million, representing a decrease of approximately 84.5% from the third quarter of 2011 and a decrease of approximately 17.4% over the same period in 2010. As a percentage of revenue, profit for the period accounted for approximately 3.6% for the fourth quarter of 2011, compared to approximately 24.6% for the third quarter of 2011 and approximately 6.5% for the same period of 2010.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the fourth quarter of 2011 was approximately RMB7.9 million, representing a decrease of approximately 84.2% from the third quarter of 2011 and a decrease of approximately 15.4% over the same period in 2010.

(4) FINANCIAL REVIEW

Fourth Quarter of 2011 Compared to Third Quarter of 2011

The following table sets forth the comparative figures for the fourth quarter of 2011 and the third quarter of 2011:

	Three months ended	
	31 December 2011	30 September 2011
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue	**217,176**	202,739
Cost of revenue	**(28,337)**	(18,043)
Gross profit	**188,839**	184,696
Other income and gains	**17,369**	5,303
Selling and marketing expenses	**(46,277)**	(34,310)
Administrative expenses	**(59,529)**	(55,946)
Development costs	**(47,387)**	(36,280)
Other expenses	**(5,047)**	(3,894)
Loss on changes in fair value of conversion option derivative	**(17,582)**	(210)
Finance costs	**(3,490)**	(316)
Share of losses of associates	**(439)**	(65)
Profit before taxation	**26,457**	58,978
Taxation	**(18,710)**	(9,124)
Profit for the period	**7,747**	49,854
Profit for the period attributable to:		
– Owners of the Company	**7,861**	49,771
– Non-controlling interests	**(114)**	83
	7,747	49,854

Revenue

Our revenue for the three months ended 31 December 2011 was approximately RMB217.2 million, representing an increase of approximately 7.1% as compared to approximately RMB202.7 million for the three months ended 30 September 2011.

Online game

Our online game revenue for the three months ended 31 December 2011 was approximately RMB192.5 million, representing an increase of approximately 4.9% as compared to approximately RMB183.5 million for the three months ended 30 September 2011.

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

	Three months ended			
	31 December 2011		30 September 2011	
	RMB'000	**% of online game revenue**	RMB'000	% of online game revenue
PRC	**164,209**	**85.3**	148,003	80.6
Overseas	**28,304**	**14.7**	35,530	19.4
	192,513	**100.0**	183,533	100.0

The online game revenue derived from the PRC for the three months ended 31 December 2011 was approximately RMB164.2 million, representing an increase of approximately 10.9% as compared to approximately RMB148.0 million for the three months ended 30 September 2011. The increase in online game revenue derived from the PRC was mainly due to the release of new Chinese expansion pack "Trumpet of Legionnaire" of Endemons Online in the fourth quarter of 2011.

The online game revenue derived from overseas markets for the three months ended 31 December 2011 was approximately RMB28.3 million, representing a decrease of approximately 20.3% as compared to approximately RMB35.5 million for the three months ended 30 September 2011.

Mobile Internet business

The mobile Internet business revenue for the three months ended 31 December 2011 was approximately RMB24.7 million, representing an increase of approximately 28.4% as compared to approximately RMB19.2 million for the three months ended 30 September 2011. The increase was mainly contributed by (i) the continuing contribution of mobile advertising revenue due to the expansion of business networks; and (ii) the increase of mobile platforms revenue due to its increase in the overall popularity.

Cost of revenue

Cost of revenue for the three months ended 31 December 2011 was approximately RMB28.3 million, representing an increase of approximately 57.1% as compared to approximately RMB18.0 million for the three months ended 30 September 2011. The increase was mainly due to (i) the increase in cooperation fees of mobile Internet business for strengthening the cooperation with third-party development on mobile Internet business; and (ii) the increase in server leasing costs due to the expansion of mobile Internet business.

The Group re-allocated the resources for the development of the mobile Internet business. The total cost of revenue of mobile Internet business for the three months ended 31 December 2011 and 30 September 2011 were approximately RMB10.1 million and approximately RMB2.9 million, respectively.

Gross profit

Our gross profit for the three months ended 31 December 2011 was approximately RMB188.8 million, representing an increase of approximately 2.2% as compared to approximately RMB184.7 million for the three months ended 30 September 2011.

The gross profit margin for the three months ended 31 December 2011 was approximately 87.0%, which represented a decrease of approximately 4.1% as compared with the three months ended 30 September 2011.

Other income and gains

Other income and gains for the three months ended 31 December 2011 were approximately RMB17.4 million, representing an increase of approximately 227.5% as compared with the three months ended 30 September 2011. The increase in other income and gains was mainly caused by the increase in government grants received by Fujian NetDragon Websoft Co. Ltd ("NetDragon (Fujian)") and TQ Digital from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳).

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2011 were approximately RMB46.3 million, representing an increase of approximately 34.9% as compared with the three months ended 30 September 2011. The increase in the amount of selling and marketing expenses was mainly due to the increase in advertising and promotion activities for Eudemons Online, Dungeon Keeper™ Online and mobile Internet business.

The Group re-allocated the resources for the development of the mobile Internet business. As at 31 December 2011, the number of operation and marketing staff in the mobile Internet business was 123, which has increased by approximately 61.8%, as compared with the number of staff as at 30 September 2011. The selling and marketing expenses of mobile Internet business for the three months ended 31 December 2011 and 30 September 2011 were approximately RMB8.5 million and approximately RMB5.5 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 6.4% to approximately RMB59.5 million for the three months ended 31 December 2011 as compared with the three months ended 30 September 2011, which was mainly due to (i) the rise in exchange loss resulted from appreciation of RMB against USD and HKD; and (ii) the increase of capital expenditure during the second half of 2011 resulted in the increase of depreciation expenses.

Besides that, the Group re-allocated the resources for the mobile Internet business, integrated application development and other new business divisions. As at 31 December 2011, the total number of accounting, finance and general administration staff in the mobile Internet business, integrated application development and other new business divisions was 42, which was increased by approximately 31.3%, as compared with the number of staff as at 30 September 2011. The total administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 31 December 2011 and 30 September 2011 were approximately RMB11.1 million and approximately RMB4.9 million, respectively.

Development costs

Development costs increased by approximately 30.6% to approximately RMB47.4 million for the three months ended 31 December 2011 as compared with the three months ended 30 September 2011. The increase in the amount of development costs was mainly caused by the performance rewards being given to staff with outstanding performance increased.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 December 2011, the total number of research and development staff in the mobile Internet business and integrated application development was 336, which was increased by approximately 13.5%, as compared with the number of staff as at 30 September 2011. The total development costs of mobile Internet business and integrated application development for the three months ended 31 December 2011 and 30 September 2011 were approximately RMB11.2 million and approximately RMB8.4 million, respectively.

Other expenses

Other expenses for the three months ended 31 December 2011 were approximately RMB5.0 million, which represented an increase of approximately 29.6% as compared with the three months ended 30 September 2011. The increase as compared with the three months ended 30 September 2011 was mainly caused by (i) a donation paid to the Youth Business China (Fujian, Haixi)* (「福建海西青年創業基金會」) to support the youth entrepreneurship contribution; and (ii) business tax of inter-group sales.

Loss on changes in fair value of conversion option derivative and finance costs

Loss on changes in fair value of conversion option derivative and finance costs increased by approximately 3,906.1% to approximately RMB21.1 million for the three months ended 31 December 2011 as compared with the three months ended 30 September 2011, which was mainly due to the rise in fair value loss and the rate of return being recognised by the issuance of Series A and Series B Preferred Shares by a subsidiary of the Company.

Share of losses of associates

Share of losses of associates for the three months ended 31 December 2011 was approximately RMB0.4 million, which increased by approximately 575.4% as compared with the three months ended 30 September 2011.

Taxation

Taxation for the three months ended 31 December 2011 was approximately RMB18.7 million, which raised by approximately 105.1% as compared with the three months ended 30 September 2011. The increase as compared with the three months ended 30 September 2011 was the increase in recognition of withholding tax for proposed final dividend declared for the year ended 31 December 2011.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 December 2011 was approximately RMB7.9 million, representing a decrease of approximately RMB41.9 million as compared with approximately RMB49.8 million for the three months ended 30 September 2011.

* *For identification purpose only*

Fourth Quarter of 2011 Compared to Fourth Quarter of 2010

The following table sets forth the comparative figures for the fourth quarter of 2011 and the fourth quarter of 2010:

	Three months ended	
	31 December 2011 (Unaudited) RMB'000	31 December 2010 *(Unaudited) RMB'000*
Revenue	**217,176**	143,957
Cost of revenue	**(28,337)**	(14,618)
Gross profit	**188,839**	129,339
Other income and gains	**17,369**	37,353
Selling and marketing expenses	**(46,277)**	(24,280)
Administrative expenses	**(59,529)**	(49,783)
Development costs	**(47,387)**	(49,891)
Other expenses	**(5,047)**	(5,552)
Loss on changes in fair value of conversion option derivative	**(17,582)**	—
Finance costs	**(3,490)**	—
Share of losses of associates	**(439)**	—
Profit before taxation	**26,457**	37,186
Taxation	**(18,710)**	(27,813)
Profit for the period	**7,747**	9,373
Profit for the period attributable to:		
– Owners of the Company	**7,861**	9,292
– Non-controlling interests	**(114)**	81
	7,747	9,373

Revenue

Our revenue for the three months ended 31 December 2011 was approximately RMB217.2 million, representing an increase of approximately 50.9% as compared to approximately RMB144.0 million for the three months ended 31 December 2010.

Online game

Our online game revenue for the three months ended 31 December 2011 was approximately RMB192.5 million, representing an increase of approximately 33.7% as compared to approximately RMB144.0 million for the three months ended 31 December 2010.

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

	Three months ended			
	31 December 2011		31 December 2010	
	RMB'000	% of online game revenue	RMB'000	% of online game revenue
PRC	**164,209**	**85.3**	116,161	80.7
Overseas	**28,304**	**14.7**	27,796	19.3
	192,513	**100.0**	143,957	100.0

The online game revenue derived from the PRC for the three months ended 31 December 2011 was approximately RMB164.2 million, representing an increase of approximately 41.4% as compared to approximately RMB116.2 million for the three months ended 31 December 2010. The increase in online game revenue derived from the PRC was mainly due to the release of new Chinese expansion packs "Edge of Night" and "Trumpet of Legionnaire" of Eudemons Online during the year under review.

The online game revenue derived from overseas markets for the three months ended 31 December 2011 amounted to approximately RMB28.3 million, representing an increase of approximately 1.8% as compared with that of approximately RMB27.8 million for the three months ended 31 December 2010.

Mobile Internet business

The mobile Internet business revenue for the three months ended 31 December 2011 was approximately RMB24.7 million, representing an increase of approximately 489.5% as compared to approximately RMB4.2 million, which was previously classified as "Other income and gains", for the three months ended 31 December 2010. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to the expansion of business networks; and (ii) the increase of mobile platforms revenue due to its increase in its overall popularity.

Cost of revenue

Cost of revenue for the three months ended 31 December 2011 increased by approximately 93.9% to approximately RMB28.3 million as compared with that of approximately RMB14.6 million for the three months ended 31 December 2010. The increase was mainly due to (i) the increase in cooperation fees of mobile Internet business for strengthening the cooperation with third-party development on mobile Internet business; and (ii) the increase in server leasing costs due to the expansion of mobile Internet business.

Gross profit

Our gross profit for the three months ended 31 December 2011 was approximately RMB188.8 million, representing an increase of approximately 46.0% as compared to approximately RMB129.3 million for the three months ended 31 December 2010.

However, the gross profit margin for the three months ended 31 December 2011 was approximately 87.0%, which represented a decrease of approximately 2.8% as compared with the three months ended 31 December 2010.

Other income and gains

Other income and gains for the three months ended 31 December 2011 decreased by approximately 53.5% to approximately RMB17.4 million as compared with the three months ended 31 December 2010. The decrease in other income and gains was mainly caused by (i) the decrease in government grants received by NetDragon (Fujian) and TQ Digital from the Finance Bureau in Fuzhou Economic and Technological Development Zone of Fujian Provincial (福建省福州市經濟技術開發區財政局) and Fujian Provincial Department of Finance (福建省財政廳); and (ii) the decrease of investment income received for the three months ended 31 December 2011.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2011 increased by approximately 90.6% to approximately RMB46.3 million as compared with the three months ended 31 December 2010. The increase in selling and marketing expenses was mainly due to (i) increase in advertising and promotion activities for Eudemons Online, Conquer Online, Dungeon Keeper™ Online and mobile Internet business; (ii) increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development; and (iii) increase in expenditures of share-based payments for the grant of share options as incentives in order to retain certain eligible participants for the contribution of the continuing operation and development of the Group.

The Group re-allocated the resources for the development of the mobile Internet business. As at 31 December 2011, the number of operation and marketing staff in the mobile Internet business was 123, which was decreased by approximately 25.9%, as compared with the number of staff as at 31 December 2010. The selling and marketing expenses of mobile Internet business for the three months ended 31 December 2011 and 31 December 2010 were approximately RMB8.5 million and approximately RMB0.3 million, respectively.

Administrative expenses

Administrative expenses increased by approximately 19.6% to approximately RMB59.5 million for the three months ended 31 December 2011 as compared with the three months ended 31 December 2010. The increase in administrative expenses was mainly due to (i) the rise in outsourced repair and maintenance expenses; and (ii) the increase in expenditures of share-based payments for the grant of share options to certain eligible participants as incentives in order to retain them for the contribution of the continuing operation and development of the Group.

Besides that, the Group re-allocated the resources for the mobile Internet business, integrated application development and other new business divisions. As at 31 December 2011, the total number of accounting, finance and general administration staff in the mobile Internet business, integrated application development and other new business divisions was 42, which was decreased by approximately 40.0%, as compared with the number of staff as at 31 December 2010. The administrative expenses of mobile Internet business, integrated application development and other new business divisions for the three months ended 31 December 2011 and 31 December 2010 were approximately RMB11.1 million and approximately RMB1.5 million, respectively.

Development costs

Development costs decreased by approximately 5.0% to approximately RMB47.4 million for the three months ended 31 December 2011 as compared with the three months ended 31 December 2010. The number of staff in our development team increased from 1,322 as at 31 December 2010 to 1,493 as at 31 December 2011. The decrease in the amount of development costs was caused by the positive result from continuing actions taken on cost control.

The Group re-allocated the resources for the development of the mobile Internet business and integrated application. As at 31 December 2011, the total number of research and development staff in the mobile Internet business and integrated application development was 336, which was increased by approximately 202.7%, as compared with the number of staff as at 31 December 2010. The total development costs of mobile Internet business and integrated application development for the three months ended 31 December 2011 and 31 December 2010 were approximately RMB11.2 million and approximately RMB6.0 million, respectively.

Other expenses

Other expenses for the three months ended 31 December 2011 were approximately RMB5.0 million, which represented a decrease of approximately 9.1% as compared with the three months ended 31 December 2010. The decrease in the amount of other expenses was mainly caused by the decline in donation to the Youth Business China (Fujian, Haixi)* (「福建海西青年創業基金會」).

Taxation

Taxation for the three months ended 31 December 2011 dropped by approximately 32.7% as compared with the three months ended 31 December 2010. The decrease as compared with the three months ended 31 December 2010 was the effect of the increase in tax rate in 2010 for technical service income and applied retrospective from 1 January 2008.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 December 2011 was approximately RMB7.9 million, representing a decrease of approximately RMB1.4 million as compared with approximately RMB9.3 million for the three months ended 31 December 2010.

* *For identification purpose only*

(5) BUSINESS REVIEW

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

Complying with the rapid business growth momentum of mobile Internet industry in the PRC, the Group has increased its efforts to develop its mobile Internet business as another source of business growth in addition to online games.

Development and licensing of existing games

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

During the year under review, the Group has continued to introduce new expansion packs to enrich its existing games. In 2011, two Chinese version of expansion packs for Eudemons Online, namely "Edge of Night" (吸血聖戰) and "Trumpet of the Legionnaire" （百戰雄獅） were launched in April and October 2011, respectively, to enhance the attractiveness of the game to the players. The Chinese version of expansion pack for Conquer Online, namely "Invasion of Pirates" （海盜來襲）was launched in December 2011, while the Turkish version of Conquer Online was also released in June 2011. In December 2011, the Group launched open beta testing for iPad-based English version of Conquer Online. Meanwhile, the Group also launched an expansion pack "Soul of Steel" （鋼鐵之魂） in the Chinese version for Zero Online in March 2011 and a new expansion pack "Legend of the Oriental" （東方傳奇） for the Chinese version of Heroes of Might and Magic Online in August 2011.

For the expansion of overseas markets, the Group continued to maintain its leading advantages among the PRC's online game operators and launched several game products in various countries and regions with market potential in 2011.

In respect of self-operated games, we have launched the expansion pack "The Returning Light" for Conquer Online in French, Spanish and Arabian in the first quarter of 2011. The Turkish version and Traditional Chinese version of Conquer Online have been launched in the third quarter of 2011, respectively. The Group has also launched different English version expansion packs, such as "Phoenix Returns"* (鳳凰歸來) for Heroes of Might and Magic Online, "Edge of Night" for Eudemons Online and "Andromeda Crisis" for Zero Online in June 2011. We expected the offer of additional in-game items and premium features to bolster the popularity of its online games.

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The Group has entered into other overseas markets through close cooperation with local major operators. We have licensed its own in-house developed online games in various countries, including Hong Kong, Malaysia, Macau, Taiwan, Brazil and Vietnam, to attract a larger user base. We have launched an expansion pack "Legends Return Season 3" in Brazilian version for Conquer Online in September 2011.

In October 2011, 91kt Player, jointly developed by the Company and Turner Broadcasting System Asia Pacific, Inc., the parent company of Cartoon Network, was formally launched. This product aims to bring Chinese children and adolescents the world's most popular Cartoon Network content, in association with a jointly developed website 91kt.com.

Games in the pipeline

To cope with the intensifying competition in the online game industry, in addition to upgrading its existing games and keeping its vitality, the Group has also focused on enriching its product reserve to ensure its leading competitive advantages in the future.

Starting from 2010, the Group has carried out four closed beta testings for its first 3D MMORPG, Dungeon Keeper™ Online (previously named as World of Dungeon Keeper™), the development of this game was the first cooperation arrangement between the Group and Electronic Arts Inc. The game has undergone improvement and an open beta is expected to be carried out in 2012.

Mobile Internet Business

During the year under review, the mobile Internet business becomes an important business within the Group, and the proposed segregation of its mobile Internet business helps the Group to maximize the potential value. Besides, with continuous effort put into the research and development and promotion of self-developed software products and games for famous smart-phones as well as the increasing revenue from advertisements, mobile games and online shops, the strategic importance of the Group's mobile Internet business has further increased. It becomes a key project in the future business development of the Group.

In 2011, the Group continues to launch various self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. As of December 2011, the total number of users of the 91 Series mobile phone software (including 91 Panda Reader*（91熊貓看書）, 91 PC Suite*（91手機助手）, etc.) which is one of the advanced mobile phone applications in the PRC, has broken its record. The Company's Android downloading platform, namely HiMarket is integrated with multiple terminals such as the mobile terminal, Web terminal, Wap terminal and PC terminal. Currently, the Company has become one of Mainland's largest distribution channels of Android application, with millions of users and billions of distributions throughout the year. As at December 2011, tens of thousands of software distributions were recorded each day.

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The Group's has further introduced the updated versions of self-developed cross-platform mobile games, such as 91 Farm*「91農場」and 91 Pasture*「91牧場」as well as Hengha Warring States*「哼哈三國」and Warring States*「戰國天下」, These games also provide numerous interactive features for players and their friends, enhancing the loyalty of the game players significantly.

91 Farm*「91農場」is the first mobile game to simulate the operation of farmland. The players of 91 Farm*, who are all mobile phone game players, can simulate planting vegetables by installing 91 Farm* on their mobile phones. The game is compatible to various platforms and has become one of the most popular farming simulation games. It was awarded as one of the "Top 10 Chinese Domestic Mobile Games"*「十大最受歡迎民族手機遊戲」by "China Game Industry Annual Conference 2011"*「2011年度中國遊戲產業年會」.

Warring States*「戰國天下」is based on the history of Chun-qiu and Warring States period. Warring States takes you back to the historical period characterized by power struggles and fierce warfare among warlords. Since the launch of its public trial version in December 2011, the mobile game has been well received and supported by players for its outstanding gaming graphics, creative playing methods and various special features. Our outstanding reputation and game design have attracted lots of supporters. We outperformed our peers as we opened our third servers within one month. On the day of commencement of the new servers, significant increase in the number of active users was recorded.

Hengha Warring States*「哼哈三國」, an interactive mode including features forums, access to friends' treasure boxes and competitions, was introduced to the game. As such, a social network among different players through this mobile game was established. In December 2011, the internal trial of Hengha Warring States was finished for further trial by all the staff.

In line with the development of business model in the mobile Internet application industry, the Group has strived for establishing a platform based operation model by integrating its research and development, operations and payment channels. The Group will focus on the rapidly-developing mobile Internet market in the PRC by providing full support to the development and innovation of Internet applications, contents and services of domestic and overseas small and medium enterprises and individual developers. The Group has also strengthened the content of mobile platform-based through cooperation with other mobile Internet enterprise for development.

In April 2011, the Group entered a strategic cooperation with DeNA Co., Ltd., a globally renowned mobile Internet enterprise, which operates Mobage, Japan's largest social gaming platform. The cooperation involves sharing mobile game development resources and distribution platforms. We believe this strategic cooperation will strengthen the leadership positions of each platform in respective home and markets abroad.

As of 31 December 2011, the mobile Internet business of the Group has 396 employees, representing approximately 16.4% of the overall staff headcount, which secured the leading position of the Group's mobile Internet business in the future.

* *For identification purpose only*

Expanding of business lines

ly.91.com（91樂印）

ly.91.com（91樂印）was established in 2011 and is one of the most significant self-developed and self-operated projects of NetDragon. ly.91.com refers to the B2C business which customers can upload photos, online order and payment, printing, production and delivery services. Currently, ly.91.com is a leading player in the industry due to its convenient back-office system and outstanding technology. It boasts six types of services, including its first-ever personalized service with more than 1,000 personalized features for more than 40 products (such as photo albums, crystal albums, printing gifts), speedy photo upload, nation-wide express delivery (2 to 5 days of delivery within the PRC), localized production and management (with a supply network covering major cities of the PRC) and comprehensive back-office management. Together, these services allow customers to enjoy the new experience of quick, convenient and value-for-money printing and production services of the Internet era. In 2011, ly.91.com migrated its operation platform from the conventional Internet to mobile Internet. Leveraging the popularity of the 91 Mobile Platform of NetDragon, ly.91.com has penetrated into the mobile market and is compatible to various mobile devices. Apart from enjoying the convenient services of ly.91.com via personal computer, customers can also print instant pictures via mobile applications with user-friendly features.

baby.91.com（91育兒）

Established in the second half of 2011, baby.91.com（91育兒）is an intelligent baby-care software developed by Fujian Best Assistant Education Technology Limited* （福建貝森特教育科技有限公司）, a subsidiary of the Group. It aims to integrate the resources from domestic and foreign top baby-care experts, archives, training institutes, government institutions and organizations. By connecting the Internet, PC and mobile phone via various kinds of mobile terminals, it provides a series of systematic and strategic learning procedures and incentives for parents to foster the mental and physical growth of their children and pave way for their happy, healthy and fruitful childhood. Currently, the optimized product design of baby.91.com covers all kinds of functions and contents as preferred and required by parents, such as baby assessment, parenting games, recipes for mothers and babies, instruments, baby stories, prenatal music for unborn child, children's series. Baby-care information is given to parents through personalized features to solve the specific daily problems of parents and children. As such, this APP is the best coach for baby care in parents' daily lives.

* *For identification purpose only*

During the year under review, 91 Limited issued the redeemable convertible preferred shares and the convertible promissory notes to certain investors. Details are as follows:

Name of other entities of the group or counterparties	**Nature and consideration of the transaction**	**Conversion rights**	**Redemption rights**	**Completion date of the transaction**	**Dates of the announcement of transaction**
(i) IDG-Accel China Growth Fund L.P.; (ii) IDG-Accel China Growth Fund-A L.P.; and (iii) IDG-Accel China Investors L.P. (collectively, "IDG Investors")	91 Limited issued and sold to IDG Investors 15,384,000 series A preferred shares (the "Series A Preferred Shares") of 91 Limited at a consideration of USD3,999,840 pursuant to a share purchase agreement dated 30 May 2011	The holders of the Series A Preferred Shares have the right to convert the Series A Preferred Shares to ordinary shares at the conversion price of USD0.26 upon a qualified initial public offering or the receipt of notice for conversion from 91 Limited.	91 Limited has the right to redeem all Series A Preferred Shares at the redemption price of USD0.26 per Series A Preferred Share plus cumulative rate of return of 5% per annum and any declared but unpaid dividends on the Series A Preferred Shares after receipt of written request signed by the holders of at least two-thirds of the Series A Preferred Shares at any time after the fifth but not later than the tenth anniversary of the issuance date of Series A Preferred Shares.	13 August 2011	30 May 2011 and 15 August 2011
IDG Investors	91 Limited issued to IDG Investors the convertible promissory notes in an aggregate principal amount of USD5,000,000 ("Notes") pursuant to a note purchase agreement dated 14 September 2011			21 September 2011	14 and 21 September 2011

Name of other entities of the group or counterparties	Nature and consideration of the transaction	Conversion rights	Redemption rights	Completion date of the transaction	Dates of the announcement of transaction
IDG Investors	Pursuant to the terms and conditions of the Notes, 91 Limited issued 4,006,250 series B preferred shares (the "Series B Preferred Shares") of 91 Limited at a conversion price of USD1.2480499 to IDG Investors on 10 February 2012. The aggregate principal amount owed by 91 Limited to the IDG Investors had been settled and the Notes thereafter be cancelled and ceased to have any effect whatsoever.	The holders of the Series B Preferred Shares have the right to convert the Series B Preferred Shares to ordinary shares at the conversion price of USD1.2480499 upon (i) a qualified initial public offering; or (ii) the receipt by 91 Limited of conversion note for the holders of a majority of Series A Preferred Shares; or (iii) the receipt by 91 Limited of conversion note from the holders of more than two-thirds of the Series B Preferred Shares ("Series B Conversion Rights")	91 Limited has the right to redeem all Series B Preferred Shares at the redemption price of USD1.2480499 per Series B Preferred Share plus cumulative rate of return of 12% per annum and any declared but unpaid dividends on the Series B Preferred Shares after receipt of written request signed by the holders of more than two-thirds of the Series B Preferred Shares at any time after fourth anniversary of the issuance date of Series B Preferred Shares ("Series B Redemption Rights")	17 February 2012	10 and 20 February 2012
(i) Vertex Asia Growth Ltd; (ii) IP Cathay II, L.P.; and (iii) DT Capital China Growth Fund, L.P. (collectively, "Series B Investors")	91 Limited issued and sold to Series B Investors an aggregate of 16,025,000 Series B Preferred Shares for a total consideration of USD20,000,000 pursuant to the series B preferred share agreement dated 9 December 2011	Series B Conversion Rights	Series B Redemption Rights	30 December 2011	9, 15 and 30 December 2011

Enhancement of R&D capabilities

The intense competition in the online game and mobile Internet application industries has driven the Group to focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 31 December 2011, the Group's overall staff headcount was 2,409, of which 1,493 were members of the development team. After more than a decade of talent cultivation, the development team of the Group has gathered expertise in programming, design and graphics, which will support its frequent R&D, game upgrades and software upgrades to accommodate the latest player preferences and satisfy emerging market trends.

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

During the year under review, the Group has actively participated in the Project, a major development project for the construction of Haixi district implemented by the PRC government and arranged by the government of the Changle City of Fuzhou in Fujian Province. In 2011, the PRC government increased its support on the cultural and creative industry. As a major provincial project, the Project in the Haixi Animation Creativity City has gained significant support and attention of the provincial and municipal governments. The area was also considered as the major animation industrial park of Fujian Province.

The Group acquired a parcel of land (the "Owned Land") and buildings, land and water coastal area located at Dahe Village, Hunan Town, Changle City, Fujian Province, the PRC (the "Property") in 2010.

The construction of the first phase of the Project including five major buildings such as the Pentagonal Building* (五角大樓) and the Heavenly Building* (天禧樓), has been completed and in use at present. The area has been designated as the research and development and quality development zone of the Group. The Group is currently establishing other infrastructure of the second phase of the Project in order.

The TQ Building* (天晴樓), the design of which is based on the shape of a spaceship and is currently under construction, has been designated as the main building for research and development of the Company. It measures approximately 23,000 sq.m. in area with a total gross floor area of nearly 50,000 sq.m. These buildings, including the TQ Building* (天晴樓), will become the core research and development zone of the comic property of the Company. Currently, the TQ Building* (天晴樓) is in the interior design stage with its main building completed its construction in August 2011. The Group held a capping ceremony in August 2011 to celebrate this significant milestone for the Project. It is expected that the TQ Building will be ready for use in the fourth quarter of 2012. The annexing building has been completed and its interior design and renovation are in progress. The core research and development zone is expected to be completed and ready for use in 2012. Besides that, we are starting to carry out the constructions of staff quarters. There will be nearly 10,000 creative talents working in the area.

* *For identification purpose only*

As at 31 December 2011, the Group had capital commitments in relation to the development of the Project of approximately RMB246.6 million, in which the Group had settled approximately RMB112.3 million.

On 17 February 2012, the Group entered into an agreement for the acquisition of two parcels of land adjacent of the Property and the Owned Land at an aggregate consideration of approximately RMB55.9 million. The completion of the acquisition shall take place on or before 17 August 2012.

Save as disclosed above, we may have the intention to make further acquisition of land and construction projects on the Property, the Owned Land and new acquired land (if any) in the future for implementation of the Group's participation in the Project.

Further details for the acquisitions of the Property and the Owned Land are set out in the circular of the Company dated 19 May 2010 and the announcement of the Company dated 25 October 2010.

Corporate Milestones and Awards

Year 2011	Corporate Milestone/Recognitions	Products Milestone/Awards
Jan	• NetDragon was awarded by ("China TMT International Chamber of Commerce")*「中國TMT國際商會」("Top 5 Mobile Internet Company with Most Investment Value")*「最具投資價值移動互聯網企業TOP5」 at the ("First China TMT Mobile Applications Selection")*「首屆移動應用評選」	• ***Online Game*** Eduemons Online was awarded the ("Award for Overseas Development of Chinese Domestic Games for 2010")*「2010年度中國民族遊戲海外拓展獎」 by the ("China Game Industry Annual Conference 2010 ")*「2010年度中國遊戲產業年會」 • ***Mobile Internet Business*** HiMarket was awarded the ("Most Popular Software for 2011")* 「最具人氣獎」) by the ("2011 Annual Election of PCHOME software users")「2011年度PCHOME軟件用戶評選」
Mar	• NetDragon was awarded the ("Advanced Publisher Award")「第二屆中國出版社政府獎先進出版單位獎」by ("General Administration of Press and Publication of the People's Republic of China")「中華人民共和國新聞出版總署」 • NetDragon was awarded the ("Best Online Game Company")*「最佳網遊公司」by the ("Tenth Session of 17173.com China Game Chart Award")*「第十屆17173中國遊戲風雲榜」	• ***Online Game*** In the ("Tenth Session of 17173.com China Game Chart Award")*「第十屆17173中國遊戲風雲榜」 — Dungeon Keeper™ Online was awarded the ("Most Expected Online Game")*「最受期待網絡遊戲」 — Eudemons Online was awarded the ("Best 2.5D Online Game")*「最佳2.5D網絡遊戲」 • ***Mobile Internet Business*** 91 PC Suite was awarded the ("Top 100 Software")* in the ("First Hong Kong International Software Contest")*「首屆香港國際軟件百強大獎」 Panda Reader was awarded the ("TOP 50 Chinese Mobile Software for 2011")*「中國手機軟件Top 50」 by the ("Six session of China Mobile Software Election")*「2011第六屆中國手機軟件評選」

* *For identification purpose only*

Year 2011	Corporate Milestone/Recognitions	Products Milestone/Awards
May	• NetDragon was awarded the ("Outstanding Cross-strait Brand")* 「海峽傑出品牌」by the ("First Cross-strait (International) Brand Culture Festival")*「首屆海峽（國際）品牌文化節」	• ***Mobile Internet Business*** 91 PC Suite V2.0 「91手机助手V2.0」was awarded the ("INT'L SOFT China 2011")*「十五屆中國國際軟件博覽會金獎」by the ("China International Software Fair Organization Committee")*「中國國際軟件博覽會組委會」
Jun	• In the ("Ninth China International Software & Information Service Fair")「第九屆中國國際軟件和信息服務交易會」 TQ Digital was awarded: — the ("Innovative Product Award")* 「創新產品獎」 of the software and information service industry of China for 2010-2011 — the ("Outstanding Contribution Award")*「突出貢獻獎」of the software and information service industry of China for 2010-2011	• ***Mobile Internet Business*** 91 PC Suite was awarded the ("Best Application Software of Mobile Internet of the Year")* 「年度最佳移動互聯網應用軟件」by the ("Design Competition of Cross-straits Digital Content of CIE")*「CIE兩岸數字內容設計大賽」
July		• ***Mobile Internet Business*** 91 PC Suite was awarded the ("Analysys EnfoNet Award - Star of Application Store of Mobile Internet")* 「易觀EnfoNet Award移動互聯網應用商店之星」by the ("4th Analysys Mobile Internet symposium")*「2011易觀移動互聯網博覽會」
Aug		• ***Online Game*** Way of Five was awarded the ("Third Session of China Outstanding Publications – Game Nominations Award")*「第三屆中國优秀出版物遊戲提名獎」by the ("Publishers Association of China")*「中國出版工作者協會」
Sep		• ***Mobile Internet Business*** 91 PC Suite was awarded the ("Best Mobile Distribution Channel of the Year in Chinese Mobile Internet")*「最佳移動分發渠道」by the ("Year Award of China Mobile Internet")*「2011中國移動互聯網年度評選 」

* *For identification purpose only*

Year 2011	Corporate Milestone/Recognitions	Products Milestone/Awards
Oct	• NetDragon was awarded the ("Fujian Intellectual Property Experimental Unit")*「福建省知識產權試點單位」by the ("Fujian Intellectual Property Office")「福建省知識產權局」 • NetDragon was awarded the "Online Game Original Award")*「网絡遊戲原創獎」 by the ("9th China International Digital Content Expo.")「第九屆中國國際網絡文化博覽會」	• ***Mobile Internet Business*** 91player「熊貓影音」was awarded the ("2011 Gold Product Award and Gold Service Award for Mobile Video Channel in China")*「2011中國手機視頻金產品獎、金服務獎」
Nov		• ***Mobile Internet Business*** In the ("2011 Selection of Golden Product and Service of Mobile Internet Industry & Customer Satisfication Survery")*「2011移動互聯網產品與服務金榜單評選活動暨消費者滿意度大調查」 Pocket Business College「掌上商學院」was awarded — the ("Finalist Award for the Best Mobile Learning Application")*「最佳移動學習應用入圍獎」 — the ("2011 China's Most Coveted Mobile Internet Product")*「2011最受風投關注中國移動互聯網產品」
Dec	• NetDragon was awarded the ("Most Admired Knowledge Enterprise Award")*「最受尊敬的知識型組織獎」by the ("Asia Most Admired Knowledge Enterprise MAKE Award 2011")*「亞洲最受尊敬的知識型組織獎」 • Fuzhou BoYuan Wireless Websoft Technology Ltd. ("Fuzhou BoYuan Wireless") was honored as the ("Outstanding Contribution Enterprise")*「突出貢獻企業」in the ("China's Mobile Internet Sector in 2011")*「2011中國移動互聯網領域」 • Fuzhou BoYuan Wireless was awarded the ("Outstanding Contribution Award")* by the ("Mobile Industry Congress China 2011")「2011中國手機產業發展大會」	• ***Mobile Internet Business*** HiMarket was awarded the ("Product Innovation Award")*「產品創新獎」by the ("Mobile Industry Congress China 2011")「2011中國手機產業發展大會」

Year 2012	Corporate Milestone/Recognitions	Products Milestone/Awards
Jan		• ***Online Game*** Dungeon Keeper™ Online was awarded the ("Most Expected Online Game")*「最受期待遊戲」by the CGPA「中國版協遊戲工委」at the ("China Game Industry Annual Conference 2011")「2011中國遊戲產業年會」 • ***Mobile Internet Business*** 91 Farm was awarded the ("Top 10 Most Popular National Phone Game")*「十大最受歡迎的民族手机遊戲」by the CGPA「中國版協遊戲工委」at the ("China Game Industry Annual Conference 2011")「2011中國遊戲產業年會」
Feb	• NetDragon was awarded the ("Most Popular Online Game Company of the Year in China")*「中國年度最受歡迎網遊公司」of the ("17173.com China Game Chart Award for 2011")*「17173 2011中國網遊風雲榜」	• ***Online Game*** Eduemons Online was awarded the ("Most Popular Online Game of the Year in China")*「中國年度最受歡迎網絡遊戲」, the ("Most Popular 2.5D Online Game")*「最受歡迎2.5D網絡遊戲」and the ("Most Popular China-made Original Online Game")*「最受歡迎國產原創網遊」of the ("17173.com China Game Chart Award for 2011")*「17173 2011中國網遊風雲榜」

* *For identification purpose only*

(6) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2011, we had bank deposits, bank balances and cash of approximately RMB1,468.9 million as compared with approximately RMB1,218.7 million as at 31 December 2010.

As at 31 December 2011, the Group had net current assets of approximately RMB1,329.7 million as compared with approximately RMB1,178.3 million as at 31 December 2010.

(7) GEARING RATIO

As we did not have any interest bearing bank loans, our gearing ratio was zero as at 31 December 2011 and 31 December 2010.

(8) CAPITAL STRUCTURE

As at 31 December 2011, the Group's total equity amounted to approximately RMB1,498.9 million (2010: RMB1,451.2 million).

(9) 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 year 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.

(10)CREDIT RISKS

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

(11)LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's financial liabilities (including trade and other payables and accruals, amount due to related companies and promissory notes will be settled within 12 months from the end of the reporting period. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

(12)PROSPECTS AND OUTLOOK

Looking forward to 2012, the Group plans to further enhance its game development capabilities and to train talented R&D personnel. Aside from developing new games to expand its product lines, the Group will continue to update the content for its games and provide diversified game versions for extending the life span of its products. As such, the Group's revenue base can be maximised.

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

In respect of its mobile Internet business, it is expected that the rapidly-rising popularity of smart-phones and 3G network in the PRC, the increasing competitive edges of the Group´s mobile Internet products, the substantial customer base and the optimised sales channels will facilitate the Group's business breakthrough.

Online Games

MMORPGs

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

TRANSFORMERS Online

In May 2010, the Group entered a brand licensing agreement with Hasbro, a worldwide leader in children's and family leisure time products and services, for the exclusive rights to develop and publish in the PRC an MMORPG based on Hasbro's iconic TRANSFORMERS brand. The action-oriented PC online game "TRANSFORMERS Online" is expected to officially roll-out in 2012 in the PRC.

Dungeon Keeper™ Online

Since 2010, the Group has carried out four closed beta testings for the 3D MMORPG, Dungeon Keeper™ Online (previously named as World of Dungeon Keeper™). Open beta testing is expected in 2012.

Besides developing more games, the Group will continue to put emphasis on the update of existing game contents in order to ensure that they remain appealing. The Group has launched the expansion pack "Invasion of Pirates" for Conquer Online in English, Spanish, French and Arabian in January 2012. It is estimated that new expansion packs of the major products of the Group, including Eudemons Online, Conquer Online, Zero Online and Way of the Five, will be released in 2012.

Other Online Games

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

icombo（都市快打）*

icombo (previous named as Cross Gate* (時空之門) was the first 2D horizontal edition combat online game of the Group. Two closed beta testings of icombo were completed in 2010 and an open beta testing will be carried out in end of 2012.

Absolute Force（絕對火力）*

A self-developed first-person role-playing shooting game of the Group which is set against the background of modern anti-terrorism war, carries features of realistic graphic designs and a wide range of virtual guns, and enrich its visual impact and operation system by applying the 3D character animation. This game enables players to experience unprecedented excitement in the true-to-life virtual game world. In December 2011, we carried out the open beta testing and expect to have the official launch in 2012.

Age of Magic (魔法VS蒸汽)*

The first self-developed ARPG online game emphasizes community interaction, which carries features of animated style, loveable and clear graphic design. We expect to carry out the first closed beta testing for this game in March 2012 and open beta testing in August 2012.

Mobile Internet Business

The Group and DeNA will establish a joint venture (the "New JV") to develop and operate mobile social games for the Chinese market. The New JV will localize non-Chinese social games, including a roster of DeNA's popular in-house and third party titles, for the growing smartphone market in the PRC. The New JV will then operate the localized games via the Group's app distribution platforms, which are widely used by smartphone users in the PRC. The Group will benefit from DeNA's extensive expertise in mobile social games. The Group will also enrich its smartphone marketplace with games from Japan and the USA.

The Group will further develop mobile Internet products, including smart-phone software applications and games for mobile phones. By launching updated versions for existing products on an ongoing basis, the Group can offer users with more user-friendly product experience and cater for their needs to strengthen their loyalty. In addition, the Group will promote the platform building strategy which provides leading platform resources of the industry for small and medium-sized game developers at home and abroad to create a win-win situation for all parties.

* *For identification purpose only*

The Group is optimistic about the expansion of the mobile Internet business in the PRC. For the future development of the expansion of the mobile Internet business, subsidiaries concentrated in the mobile Internet business of the Company have commenced operations since April 2011 independently.

Issuance of Series B Preferred Shares by 91 Limited to NetDragon Websoft Inc.

On 10 February 2012, a subscription agreement (the "Subscription Agreement") was entered into between NetDragon Websoft Inc. ("NetDragon (BVI)"), a subsidiary of the Company and 91 Limited, an indirect subsidiary and a connected person of the Company under the Rules Governing the Listing of Securities on the Stock Exchange Limited ("Listing Rules"). Pursuant to the Subscription Agreement, NetDragon (BVI) subscribed for, and 91 Limited issued and alloted, 2,403,750 Series B Preferred Shares for a total consideration of USD3,000,000. The holders of the Series B Preferred Shares have the right to convert the Series B Preferred Shares to ordinary shares at the conversion price of USD1.2480499 upon (i) a qualified initial public offering; or (ii) the receipt by 91 Limited of conversion note for the holders of a majority of Series A Preferred Shares; or (iii) the receipt by 91 Limited of conversion note from the holders of more than two-thirds of the Series B Preferred Shares. 91 Limited has the right to redeem all Series B Preferred Shares at the redemption price of USD1.2480499 per Series B Preferred Share plus cumulative rate of return of 12% per annum and any declared but unpaid dividends on the Series B Preferred Shares after receipt of written request signed by the holders of more than two-thirds of the Series B Preferred Shares at any time after fourth anniversary of the issuance date of Series B Preferred Shares.

On 17 February 2012, all conditions precedent under the Subscription Agreement had been fulfilled or waived and the closing of the Subscription Agreement (the "Subscription Closing") took place. 91 Limited issued and sold to NetDragon (BVI) a total of 2,403,750 Series B Preferred Shares and the total consideration of the Subscription Agreement had been received by 91 Limited.

Further details of the Subscription Agreement and the Subscription Closing are set out in the announcements of the Company dated 10 and 20 February 2012, respectively.

Conclusion

In the face of the intensifying competition in the online game industry and the overall slowdown in the development of the industry, the Group believes that its future success will rely more on its core competitiveness. To this end, the Group will further invest in and strengthen game development and operation by launching internal training programs and employing experienced elite games developers, graphic designers and market operators for the continuous enhancement of its product appeal to players.

There has been a surge in the number of online game products which resulted in a higher market expectation on quality games. In view of this, the Group intends to cater for the demands of players on storyline setting, graphic style and playing methods of the new games by regulating the development process of various game projects in 2012. It will also carry out initiatives to optimise the perspectives and planning of market forecast at the early development stage, identify development targets for each version of game projects and improve operating standards for projects which are subject to regular auditing. The above measures will also help to optimize the cost structure of the Group and generate more profits from the future revenue growth.

The Group's lay-out for its mobile Internet business is expected to boost its rapid growth in 2012. With the favourable mobile Internet development in the PRC as well as the endeavours of the Group, its mobile Internet business will become another major source of growth apart from its online games.

Other Events

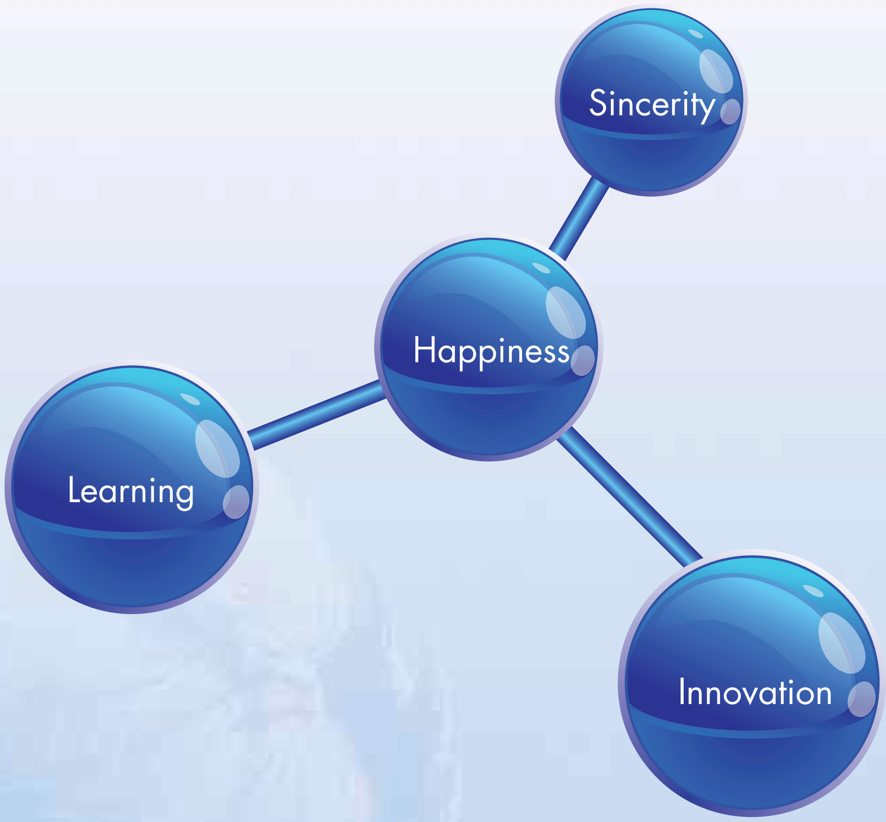
The Group started the talent optimization project from 2009 and its objectives are to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff. We had successfully enhanced the mobility of staff and maintained the momentum of the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

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

CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

CORPORATE CULTURE

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



"Happiness, learning, innovation and sincerity" are DNA components of NetDragon's corporate culture and cultural DNA of all staff in NetDragon.

Happiness

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

Learning

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

Innovation

- everyone work in NetDragon follows the rule of uniqueness
- everyone in NetDragon bears passion to create
- sense of achievement is gained from innovation

Sincerity

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

CORPORATE SOCIAL RESPONSIBILITIES

As one of the leading online game and mobile Internet applications developers and operators in the PRC, NetDragon prides itself on being widely recognized as a responsible corporate citizen. We aim to develop and market creative and innovative online game and mobile Internet applications products while at the same time maintaining our deep commitment to the well-being of the community and our employees.

The Group has been actively engaged in a number of charitable events over the past year, including some of which were initiated by our own. The Group established the NetDragon Charity Committee (the "Charity Committee") in Fuzhou headquarter in June 2008 to carry out community and charity work.

The Charity Committee encouraged the staff to actively participate in charity through all members participation. This helps to build a charity brand of staff of NetDragon, and raise our corporate brand culture by participating charity activities regularly in long term.

Long-term and regular charity activities received active response and support from the staff and were recognized and appreciated by charity organizations in the community. NetDragon has received silk banners from the relevant organizations.

NetDragon Charity Committee

In June 2011, the Charity Committee organized the ("Sending Books to Rural Areas (Fuzhou) Campaign")*（「隨手送書下鄉(福州)活動」）in which within less than half a year four book-collection centers were set up in the city and two reading rooms were established in Pingtan and Minhou, with over 7,000 books sent to the rural areas. Since October 2011, the Charity Committee has strived to raise fund for a staff member with leukemia. Till now, internal donation of the Company amounted to over RMB200,000. With successful publicity, this fund-raising event has attracted the attention of the public and the donation received was sufficient to cover all the expenses of the marrow transplant surgery of the staff member.

Many staff members have taken part in various charity activities organized by the Company, which help to promote a loving and caring corporate culture within the Company.

* *For identification purpose only*

Youth Business China (Fujian, Haixi)* (「福建海西青年創業基金會」)

Under the support of NetDragon, the Youth Business China (Fujian, Haixi)* (「福建海西青年創業基金會」) was successful in assisting young people to open up their businesses.

During the year under review, it provided training programs, such as workshops and training classes, for more than 50,000 young people who are dedicated to opening up their businesses. Of which thousands of people successfully started their businesses and approximately 200 people obtained interest-free loans of at least RMB30,000 and were provided with mentorship programs. Offices and service centers were established throughout the province with nearly a thousand of volunteer mentors recruited. Mentors' club and youth club were also established. We have obtained a special government grant to subsidize the training programs and interest of loans for young people. Besides, organizations such as Donghai Securities (東海證券) and CKGSB (Fujian) (長江福建校友會) have also showed their support by providing capital, projects, venues and publicity.

* *For identification purpose only*

STAFF RELATIONSHIP AND WELFARE

HUMAN RESOURCES

The Group considers human resource talent as our most valuable asset and vital to our overall business development. In order to expand and diversify its game offerings, extend the reach of its products in existing and new markets, further leverage the inherent advantages of vertical integration as a developer and operator of online games and explored different opportunities by developing mobile Internet applications, the Group has its overall staff headcount to a total of 2,409 as at 31 December 2011.

In 2011, NetDragon has achieved significant improvement in human resources management.

1. In the beginning of 2011, the Group established a target management system comprising the Company's management level, different departments/divisions/groups and individuals. The fulfilment of targets will be a crucial basis for the annual assessment of these departments. With this effective target management system, the performance of members of all levels within the Company can be examined, evaluated, guided and tracked to efficiently meet the Company's operation management targets.

2. In March 2011, the Company formulated the ("Management Basis Working Schedule")*「管理基礎工作時間表」 which was monitored by ("electronic means")*「E化管理」 with the set-up of a ("M-Post Order Placing System")*「M崗下單系統」. Members of the management carried out their daily operation in strict accordance with the schedule. It also improved the competence of the management team. Management efficiency and performance were enhanced as it provided true and reliable information for the evaluation and promotion of the management.

3. In 2011, in order to improve the competitiveness of staff salary, the Company revised its salary structure and increased bonuses for core staff members. An incentive team was established to suggest the formulation of specific incentive measures. A salary incentive mechanism which is also linked to profits of operating projects has been set up. The Company formulated and implemented the ("Golden Handshake Plan")*「金色握手計劃」 to grant options to core staff based on their positions. With market competitiveness of salary of the Company improved, this plan is effective in retaining talents.

4. The Company promoted internal consensus on its strategies and strengthened its corporate culture to create better working atmosphere. It focused on the physical and mental well-being of staff by caring for their development and giving them incentives. To encourage its staff to take the initiative at work, it supported the activities of staff organizations such as staff club, welfare committee and Charity Committee. More than 150 club activities were held, in which staff donation for ("91 Charity Foundation")*「91愛心基金」 amounted to over RMB348,000 while internal and external donation of the Company for staff suffering from illnesses amounted to over RMB600,000.

* *For identification purpose only*

TRAINING AND TRAINING SYSTEM

Staff training is crucial to the Group's human resources management and development. The Group's training centre is called NetDragon University. Founded in 2007, NetDragon University is the first university established by an enterprise in the domestic online game industry. As the base for training talents for the strategic development of NetDragon, the Group also provides regular on-the-job training by organizing courses that are well received by the staff. It also coordinated with high schools to provide undergraduate internship training and customized training that are well received by the undergraduates and management of several high schools.

NetDragon University provides substantial support to and forms a significant part of the overall strategy of NetDragon. Dedicated to providing professional and systematic staff training, it undertakes to promote the corporate culture and facilitate the corporate reform of the Group.

Looking back to 2011, the completion rate of training programs of NetDragon University was over 20% as expected and around 180 courses were conducted. The satisfaction rate was over 90% and the total training hours amounted to approximately 35,000. Among which, the average training hours of management members were about 40. A total of 50 types of management, general skill and team experience courses were covered in the training programs. All courses were supplemented by practical cases of the Company. There were 6 full-time lecturers and 42 technical part-time lecturers in the Company.

Furthermore, the ND Products Development (Product Manager), a training project for senior staff members as a part of the strategic development measures of the Company, had around 70 participants in total with about 80 training hours per management member on average. The training program encourages action, planning and learning by applying the methods and approaches learned in the class to projects. Besides, the Company organizes summit forums for product launch to broaden the horizon of its employees and notify them of the first-hand information of the industry from time to time. These measures were of great importance to the development and training of core members of the Company.

In addition, the E-Learning platform has been integrated with the internal system of the Company to provide a solid foundation for diversified training, technical training and knowledge management. With highly-efficient administration, the training programs were successfully conducted.

WORKING ENVIRONMENT

We provide all our staff with a friendly and enjoyable working environment which is spacious and offers diversified staff facilities, including a 24-hour canteen, activities rooms, indoor and outdoor swimming pools, basketball court, badminton court, tennis court, squash court and fitness centre. Such a pleasant working area not only improves the sense of belonging among our staff, but also helps to enhance their efficiency and creativity.We also organize various staff activities like the 91 Carnival, Sports Day and New Year Gala.

In 2011, the buildings of first phase for the Project are ready to use. Some of our employees have started to work in Changle or to do research and development activities. NetDragon University also organized number of sessions of on-board training course to newly joined employees in Changle. We believed that the completion of Project will further improve our working environment.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Liu Dejian, aged 40, Chairman, Executive Director

Mr. Liu led us to become one of the PRC's leading online game and mobile Internet applications development companies. He is mainly responsible for the overall business strategic development of the Company and is the chief game designer of our game development team. Mr. Liu Leads the game development team on the design of the online game products. He formulates the development policy and contributes to the growth of the Company as a competitive online game operator and developer. Apart from his management and leadership, Mr. Liu constantly holds training seminars to further enhance the development of our human resources. Prior to starting NetDragon (Fujian), Mr. Liu graduated with a Bachelor's degree of Science in Chemistry from University of Kansas in the USA in 1995. He had been the vice-president of Beso Biological Research Centre, Inc ("Beso") from 1995 to 2005. He was also the vice-president of Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") from 1995 to 2000 and then promoted to be the president since 2001. Mr. Liu was first introduced to the technology of Internet during his study in the USA when he established a website for marketing of softwares. Anticipating that Internet would have a good development opportunity in the PRC, he founded NetDragon (Fujian) in 1999 when he came back to the PRC. He was awarded as the Most Influential Person within the Online Game Industry in China in the Chinese Game Industry Annual Conference 2009 in January 2010 (「2009年度中國遊戲產業最具影響力人物」). He was also awarded as "Excellent Entrepreneur of China Game Industry* (「中國遊戲行業優秀企業家」) in the China Game Industry Annual Conference in December 2009. He was appointed as vice-chairman of Fujian Province Association of Youth Entrepreneur*「福建省青年企業家協會」 in April 2006. He also obtained Fujian Youth Entrepreneur Achievement Award* 「福建青年創業成就獎」) in April 2005, Go Tone Fujian IT Industry Top 10 Outstanding Youth* (「全球通福建IT行業十大傑出青年」) in May 2005, Certificate of Fujian Entrepreneurial Tutor of the Chinese Youth Business International Programme* (「中國青年創業國際計劃福建創業導師證書」) in June 2005, Fujian Youth Technology Award* (「福建省青年科技獎」) in March 2010 and Software Outstanding Talent in Fujian Province*(「福建省軟件傑出人才」) in September 2010. Mr. Liu is also a director of NetDragon (Hong Kong), NetDragon (BVI), 91 Limited, BoYuan (Hong Kong) Wireless Websoft Technology Limited, subsidiaries of the Company. Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

* *For identification purpose only*

Liu Luyuan, aged 38, Executive Director, Chief Executive Officer, Compliance Officer and one of the authorized representatives of the Company

Mr. Liu has over 10 years of experience in management and administration of technical institutions. Mr. Liu is mainly responsible for the overall management of the Group. Mr. Liu established the project management department and introduced the game project management system to ensure the standard of our games are in compliance with the standards. Mr. Liu is also responsible for the coordination with the governmental departments, media and the other external parties, under which he has built up our good reputation over years. Prior to joining us in 1999, Mr. Liu was the technical engineer of the information technology system project in Fujian Tumour Hospital and the section officer of the mechanic management system project in Fujian Provincial Health Bureau from 1997 to 1999. He was awarded as Online Game Pioneer in China for 2007* (「2007年度中國遊戲產業新銳人物」) in the Chinese Game Industry Annual Conference 2007 in January 2008. He also obtained the Certificate of Part-time Professor of Fujian Normal University （福建師範大學） in April 2010. He currently serves on a number of social services, such as the member of the Standing Committee of All-China Youth Federation(「中華全國青年聯合會」), the director of the Youth Business China (Fujian, Haixi)* (「福建海西青年創業基金」), the chairman of the Fujian Youth Entrepreneur Association（福建省青年企業家協會）and a member of Fujian CPPCC (「福建省人民政治協商會議」). Mr. Liu graduated with a Bachelor's degree in electronic and Mechanical Engineering from the University of Electronic Science and Technology in Chengdu in 1997. Mr. Liu is also a director of NetDragon (BVI), a subsidiary of the Company. Mr. Liu is a brother of Liu Dejian and a cousin of Zheng Hui.

Zheng Hui, aged 43, Executive Director

Mr. Zheng is the Director of the Company and responsible for the overall management and administration of the Group. Mr. Zheng manages our administrative department and provides supporting resources to our operation. Mr. Zheng also coordinates, supervises and manages the duties of our various departments. Mr. Zheng has more than 20 years of management and administration experience. He is one of the founding shareholders and has been appointed as the senior executive manager in NetDragon (Fujian) since 1999. Mr. Zheng is also the legal representative and executive director of Shanghai Tiankun Digital Technology Ltd ("NetDragon (Shanghai)") since 2004 and the Legal representative and executive director of Fujian Tianyu Education Technology Limited* （「福建天漁教育科技有限公司」） since 2010. Before founding NetDragon (Fujian) in 1999, Mr. Zheng worked in Beso and Fuzhou 851 from 1992 to 1999. He obtained a graduation certificate from the Continuing Education Institute of Beijing Normal University in 2000. Zheng Hui is the cousin of Liu Dejian and Liu Luyuan.

* *For identification purpose only*

Chen Hongzhan, aged 39, Executive Director, Vice President, Chief Technology Officer

Mr. Chen is the Vice President, Chief Technology Officer and Executive Director of the Company. He worked as a game developer before joining the Company in 2001. The technical team led by Mr. Chen is responsible for the development procedure of our games and the technical support to the production of our games. His technical support and experience have raised the efficiency and quality of the company's game development department. He is an experienced online game developer with over 10 years of experience in the management of game development. He is mainly responsible for game development of the Company. Mr. Chen established his own online game studio from 1996 to 1998. Before joining us in 2001, Mr. Chen worked as the project manager in Chongqing Dazhong Software Company from 1998 to 2000 and the manger of the technical department in Beijing Beijibing Technology Development Company Limited from 2000 to 2001. Mr. Chen graduated with a Bachelor's degree of Engineering in Mechanical-Electrical Integration from the Beijing University of Aeronautics and Astronautics in 1995.

NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 49, Non-executive Director

Mr. Lin was appointed as a non-executive Director on 15 October 2007. Mr. Lin graduated with a Master's degree in Engineering Management in 1988 from Tsinghua University. He joined IDG Technology Venture Investment Inc. as its vice president in 1994, and has served as a general partner of IDG Technology Venture Investment since 1999. He has over 12 years of experience in venture investment. He was nominated by the IDG Group to the Board and was appointed as a non-executive Director since 15 December 2004. Mr. Lin is also a non-executive director of Superdata Software Holdings Limited, a company previously listed on the GEM from 6 June 2003 to 18 May 2006 upon its withdrawal, since July 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 46, Independent non-executive Director

Mr. Chao was appointed as an independent non-executive Director on 15 October 2007. Mr. Chao is also the chairman of the audit committee, a member of our remuneration committee and nomination committee. Mr. Chao is the President, Chief Executive Officer and Director of SINA Corporation, a publicly listed company in Nasdaq. Mr. Chao joined SINA Corporation as a Vice President of Finance in 1999 and served as its Co-Chief Operating Officer, President and Chief Financial Officer before his current position as the President and Chief Executive Officer. Prior to joining SINA, Mr. Chao served as an experienced audit manager in PricewaterhouseCoopers LLP to provide audit and business consulting services for companies in Silicon Valley, California. Mr. Chao is currently a director of Focus Media Holding Limited, a publicly listed company in Nasdaq. Mr. Chao has been appointed as a Co-Chairman of the Board of Directors of China Real Estate Information Corporation, a publicly listed company in Nasdaq, since October 2009. Mr. Chao is a certified public accountant and a member of the American Institute of Certified Public Accountants. Mr. Chao graduated with a Master's degree in professional Accounting from the University of Texas at Austin in 1993, a Master's degree in Journalism from the University of Oklahoma in 1991 and a Bachelor's degree in Journalism from the Fudan University in 1988.

Lee Kwan Hung, aged 46, Independent non-executive Director

Mr. Lee was appointed as an independent non-executive Director on 15 October 2007. Mr. Lee is also the chairman of our remuneration committee, a member of our audit committee and nomination committee. He is a practicing solicitor and received his LL.B (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as solicitor in Hong Kong in 1991 and in England and Wales in 1997. Mr. Lee is currently an independent non-executive director of Yuexiu REIT Asset Management Limited (being the manager of Yuexiu Real Estate Investment Trust), Embry Holdings Limited, Asia Cassava Resources Holdings Limited, New Universe International Group Ltd, Newton Resources Ltd, Walker Group Holdings Ltd, Tenfu (Cayman) Holdings Co Ltd, Far East Holdings International Limited and Futong Technology Development Holdings Limited, the shares of these companies are listed on the Stock Exchange. Mr. Lee was also a non- executive director of GST Holdings Limited from December 2004 to December 2009, which listing of its shares on the main board of the Stock Exchange has been withdrawn on 18 December 2009. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

Liu Sai Keung, Thomas, aged 39, Independent non-executive Director

Mr. Liu is the CFO of Vision Credit Limited. He was appointed as an independent non-executive Director on 15 October 2007. Mr. Liu is also the chairman of our nomination committee, a member of our audit committee and remuneration committee. He graduated with a MBA degree from the Anderson School at the University of California, Los Angels, and a Bachelor's degree in Business Administration and a Master's degree in Finance from the Chinese University of Hong Kong in 1995 and 1999 respectively. Prior to joining Vision Credit Limited in 2011, he served as the managing director of Vision Capital Group in 2009, the managing director of strategic investment of GroupM China from 2007 to 2009 and the vice president of Star Group Limited from 2006 to 2007. He has also served as a business development director in TOM Online Limited, and an investment banking associate of the New York office of Lehman Brothers Inc.

SENIOR MANAGEMENT

Wu Chak Man, aged 40, Vice President, Chief Financial Officer, General Manager of NetDragon (Shanghai)

After joining us in January 2004, Mr. Wu has been responsible for sales and marketing in the PRC, the overseas business development and the operations in the USA. He is currently responsible for our corporate finance and financial management matters. He is also in charge of the business development and the operation of the mobile Internet business division in NetDragon. Mr. Wu graduated with a Bachelor's degree in Economics from the University of California, Berkeley in 1994, and a Master's degree in business administration from Duke University in 2004. He has over 10 years of experience in business and management experience. He was the vice-president in the marketing of Beso from 1995 to 1999. From 2000 to 2002, he was the Chief Operating Officer of Octant Communications Inc.

Wu Jialiang, aged 35, Vice President, Director of TQ Digital and NetDragon (Fujian)

Mr. Wu graduated with a Bachelor's degree in Applied Mathematics from the University of Fuzhou in 1999. He has over 10 years of experience in system management, server operation and anti-hacking. After joining us in 1999, he is responsible for the maintenance of game servers to ensure the timely application and implementation of advanced network technology. Mr. Wu has been the responsible officer in our technical department, value-added business department and VIP management centre.

Rhee Kwanwoo, James, aged 44, Vice President, Corporate Development

Mr. Rhee joined us in June 2008 and is responsible for investor relations and strategic development of the Group. Before joining us, Mr. Rhee was a managing director in equities research with Bear Stearns in Hong Kong and vice president in equities research with Dresdner Kleinwort Benson in Seoul, and had previously served as an attorney for corporations in Seoul and Singapore. He graduated with a Bachelor's degree in East Asian Studies from Wesleyan University in 1989 and a Juris Doctorate from The University of Connecticut School of Law in 1995. He is a Chartered Financial Analyst and is admitted to practice law in the state of New York.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Tam Hon Shan, Celia, aged 39, Financial Controller, Company Secretary, Qualified Accountant and one of the authorised representatives of the Company

Ms. Tam joined us in April 2007 and is responsible for the financial and accounting management and secretarial affairs of the Company. She graduated with a Bachelor's degree in business accounting from the University of Lincolnshire and Humberside in 2000. She is a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. She has over 10 years of experience in accounting and finance field.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 July 2004 and is an investment holding company. The shares of the Company have been listed on the Main Board of the Stock Exchange since 24 June 2008.

The Group is principally engaged in online game development and mobile Internet business, including game design, programming and graphics, and online game operation.

Details of the principal activities of the Company's principal subsidiaries are set out in note 40 of Notes to the Consolidated Financial Statements.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2011 are set out in the Consolidated Statement of Comprehensive Income on page 99.

The interim dividend of HKD0.1 per share amounting to approximately HKD43,957,000 for the six months ended 30 June 2011 had been approved by the Directors and was paid on 15 September 2011.

The Directors now recommend the payment of a final dividend of HKD0.12 per share. The final dividend is expected to be payable on or before Thursday, 7 June 2012 to shareholders whose names appear on the register of members of the Company on Thursday, 31 May 2012, amounting to approximately HKD61,752,000 .

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2011.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2011 set out in note 13 of Notes to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements of the Company's issued share capital for the year ended 31 December 2011 are set out in note 30 of Notes to the Consolidated Financial Statements.

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2011 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2011 and 2010, the Company had no reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB50,062,000 (2010: approximately RMB8,994,000) and accumulated loss of approximately RMB44,612,000 (2010: approximately accumulated loss RMB27,148,000) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers and the Group's largest customers accounted for approximately 2.4% and approximately 0.8%, respectively, of the Group's total turnover for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for approximately 100% and approximately 40.6%, respectively, of the Group's total purchase for the year.

None of the Directors, their associates, or shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest suppliers and customers during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors during the year were as follows:

Executive Directors

Mr. Liu Dejian *(Chairman)*
Mr. Liu Luyuan *(Chief Executive Officer)*
Mr. Zheng Hui
Mr. Chen Hongzhan

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

Mr. Chao Guowei, Charles (Notes 1, 2, 3, 5)
Mr. Lee Kwan Hung (Notes 1, 3, 4, 5, 7, 8)
Mr. Liu Sai Keung, Thomas (Notes 1, 3, 5, 6, 7)

Notes:

1. Member of Audit Committee
2. Chairman of Audit Committee
3. Member of Remuneration Committee
4. Chairman of Remuneration Committee
5. Member of Nomination Committee
6. Chairman of Nomination Committee
7. Member of Share Award Scheme Committee
8. Chairman of Share Award Scheme Committee

Each of the executive Directors has entered into a service contract with the Company and each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commenced on 24 June 2008 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term unless and until terminated in accordance with the terms of the service contract or by either party thereto giving to the other not less than three months' prior written notice. Each of the executive Directors will receive a salary which is subject to annual review at the discretion of the Board.

The determination of the salary payment to the Directors will be based on salaries paid by comparable companies, time commitment, the duties and responsibilities of the Directors in the Company, the Company's performance and its remuneration policy.

Each of the executive Directors may also be entitled to a bonus payment in such amount as shall be determined by the Board in its absolute discretion provided that the aggregate sum of such bonus payments in any financial year shall, unless the Board shall determine otherwise, not exceed 1% of the audited consolidated net profit of the Group after taxation but before extraordinary items in the relevant financial year.

In accordance with the article of association of the Company, Messrs Liu Luyuan, Zheng Hui and Lee Kwan Hung will retire by rotation at the forthcoming annual general meeting (the "AGM"). Liu Luyuan, Zheng Hui and Lee Kwan Hung, being eligible, will offer themselves for re-election at the AGM of the Company. None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has received annual confirmations of independence from Mr. Chao Guowei, Charles, Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas and considers them to be independent.

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the changes of information on the Directors are as follows:

The annual emolument of Mr. Chao Guowei, Charles, an independent non-executive Director, have been revised from approximately RMB275,000 to approximately RMB303,000.

The annual emolument of Mr. Lee Kwan Hung, an independent non-executive Director, have been revised from approximately RMB275,000 to approximately RMB303,000.

Mr. Liu Sai Keung, Thomas, an independent non-executive Director, have been revised from approximately RMB275,000 to approximately RMB303,000.

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

As at 31 December 2011, 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 (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Name of company**	**Capacity and nature of interests**	**Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
Liu Dejian *(Note 2)*	The Company	Beneficial owner and through controlled corporations	268,492,520 (L)	52.18%
Liu Dejian *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Dejian *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Liu Luyuan *(Note 2)*	The Company	Beneficial owner and through controlled corporations	268,292,520 (L)	52.14%
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Liu Luyuan *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Zheng Hui *(Note 2)*	The Company	Beneficial owner and through controlled corporations	266,892,520 (L)	51.86%
Zheng Hui *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000 (L)	98.86%
Zheng Hui *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000 (L)	100.00%
Chen Hongzhan *(Note 4)*	The Company	Beneficial owner and through a controlled corporation	14,784,000 (L)	2.87%
Chao Guowei, Charles *(Note 5)*	The Company	Beneficial owner	597,019 (L)	0.12%
Lee Kwan Hung *(Note 5)*	The Company	Beneficial owner	597,019 (L)	0.12%
Liu Sai Keung, Thomas *(Note 5)*	The Company	Beneficial owner	597,019 (L)	0.12%

Notes:

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.

2. Liu Dejian is interested in 95.40% of the issued share capital of DJM Holding Ltd., which in turn is interested in 36.16% of the issued share capital of the Company.

   Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 5.12% of the issued share capital of the Company.

   Zheng Hui is interested in 4.60% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 36.16% and 4.13%, 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 in100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 6.40% 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 51.81% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company awarded 1,600,000 shares and 1,400,000 shares of the Company to Liu Dejian and Liu Luyuan, respectively. On 22 July 2011, the Company granted 284,000 share options to each of Liu Dejian, Liu Luyuan and Zheng Hui.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.51% of the issued share capital of the Company. Chen Hongzhan had been awarded 1,600,000 shares of the Company on 7 December 2009 and granted 284,000 share options of the Company on 22 July 2011, which in total represent 0.36% of the issued share capital of the Company. Accordingly, Chen Hongzhan is deemed to be interested in 2.87% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited and his direct beneficial interest in the issued share capital of the Company.

5. On 22 July 2011, the Company granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sui Keung, Thomas.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2011, 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 37 of the Notes to the Consolidated Financial Statements, no contracts of significance in relation to the Company's business, to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

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

So far as is known to the Directors, as at 31 December 2011, 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:

Name	**Name of Group member**	**Capacity and nature of interests**	**Number of ordinary shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100 (L)	36.16%
Eagle World International Inc. *(Note 2)*	The Company	Beneficial owner	32,952,920 (L)	6.40%
Flowson Company Limited *(Note 2)*	The Company	Through a controlled corporation	32,952,920 (L)	6.40%
IDG Group *(Note 3)*	The Company	Beneficial owner	78,333,320 (L)	15.22%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000 (L)	99.00%
Edmond de Rothschild Assets Management Hong Kong Limited *(Note 4)*	The Company	Beneficial owner	30,888,000	6.00%
Edmond de Rothschild Assets Management *(Note 4)*	The Company	Through a controlled corporation	30,888,000	6.00%

Notes:

1. The letter "L" denotes the shareholder's long position in the share capital of the relevant member of the Group.

2. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the British Virgin Islands with limited liability and is owned as to 100.00% by Flowson Company Limited. Flowson Company Limited is deemed to be interested in 6.40% of the issued share capital of the Company through its shareholding in Eagle World International Inc..

3. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.11%, 10.11%, 2.06% and 0.94%, respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships are as follows:

   a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and Patrick J. McGovern.

   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 Patrick J. McGovern.

   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 James W. Breyer.

4. Edmond de Rothschild Asset Management ("EdRAM"), is an asset management company, registered with the Autorité des marchés financiers in France. Edmond de Rothschild Asset Management Hong Kong Limited ("EdRAM HK") is 100.00% owned by EdRAM and is approved by the Securities and Futures Commission of Hong Kong. EdRAM HK is a delegated investment manager of funds (focusing on Chinese and Asia ex-Japan markets) managed by EdRAM. EdRAM is deemed to be interested in 6.00% of the issued share capital of the Company through its shareholding in EdRAM HK.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2011.

CONNECTED TRANSACTIONS

STRUCTURE CONTRACTS

ND Cooperation Framework Agreement

With a view to offer further protection to the interests of the Company and the shareholders as a whole by means of contractual arrangements, TQ Digital and NetDragon (Fujian) and its equity holders entered into the structure contracts (together with the contracts entered into between NetDragon (Fujian) and Fujian TQ Online Interactive Inc. ("TQ Online") as set out below, (the "Structure Contracts"), which superseded the cooperation arrangements between TQ Digital and NetDragon (Fujian) effective from 1 January 2007.

In view of the new EIT law adopted by the National People's Congress of the PRC on 16 March 2007, a wholly foreign owned enterprise, TQ Online, has been set up to gradually substitute TQ Digital in our operation. TQ Online has entered into the Structure Contracts with NetDragon (Fujian) on 16 May 2008. As TQ Digital is and will still be the party operating the existing versions of the Group's online games, all Structure Contracts entered into between TQ Digital and NetDragon (Fujian) will be retained.

Under the Structure Contracts, NetDragon (Fujian) is responsible to collect the revenue generated from the operation of the games. Through the Structure Contracts, we are able to recognize and receive the economic benefits of the business and operations of NetDragon (Fujian). The Structure Contracts enable TQ Digital and TQ Online to control over and to acquire the equity interests in and/or assets of NetDragon (Fujian) when permitted by the relevant PRC laws and regulations.

On 15 October 2007, TQ Digital and NetDragon (Fujian) entered into a cooperation framework agreement (the "ND Cooperation Framework Agreement") pursuant to which TQ Digital and NetDragon (Fujian) agreed to cooperate in the provision of services relating to the online game development for and the operation of the online game business of NetDragon (Fujian). The ND Cooperation Framework Agreement and the terms of reference of the management committee (the "ND Management Committee") laid down the principles that the ND Management Committee shall have right to determine the amount of license and service fees payable by NetDragon (Fujian) with reference to the amount of expenditure incurred by NetDragon (Fujian) in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) NetDragon (Fujian) shall pay the maximum amount of fees to TQ Digital without incurring any loss for each financial year; and (ii) the net asset value of NetDragon (Fujian) shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000. Further details of ND Management Committee are set out in the section of "Corporate Governance Report" under the paragraphs of "ND Management Committee". This principle will ensure that all of the net profit after tax of NetDragon (Fujian) in each financial year shall be paid to TQ Digital as service or license fees, and will give flexibility to the ND Management Committee to implement the Structure Contracts and its underlying principles more effectively in response to constantly changing the PRC laws and regulation.

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

On 16 May 2008, TQ Online and NetDragon (Fujian) entered into another cooperation framework agreement with the same terms as the ND Cooperation Framework Agreement, save as to the date, duration and the substitution of TQ Digital by TQ Online. The term of such cooperation framework agreement is 10 years commenced from 16 May 2008 and ending on 15 May 2018, and automatically renewable for successive 10 year terms provided that TQ Online does not issue any notice of termination one month before the termination date.

As a result of the Structure Contracts, TQ Digital and TQ Online are able to control NetDragon (Fujian) and NetDragon (Shanghai), and accordingly, they are regarded as our subsidiaries and their results are to be consolidated into our financial statements. Since NetDragon (Fujian) and NetDragon (Shanghai) were under the common control of the same group of persons before and after our formation, the results and financial positions of NetDragon (Fujian) and NetDragon (Shanghai) are combined into our financial statements using merger accounting as if NetDragon (Fujian) and NetDragon (Shanghai) were part of us since their respective date of establishment or since the date when they first came under the common control.

In accordance with the terms of the ND Cooperation Framework Agreements, TQ Digital and TQ Online (where relevant) entered into (1) cooperation and license agreements in respect of online games; (2) online games software development service agreements; and (3) technical support service agreements with NetDragon (Fujian), for the purpose of license, development of online games and provision of technical services to NetDragon (Fujian). Details of the agreements are set out below:

Date of agreement signed	Name of agreement	Summary of agreement	Terms of agreement
15-10-2007 and 20-11-2007	Cooperation and license agreements in respect of online games	TQ Digital will license online game softwares to NetDragon (Fujian) for use in the PRC	• 10 years commencing from 01-01-2007 to 31-12-2016 • Consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
15-10-2007	Online game software development service agreement	TQ Digital will provide online software development service to NetDragon (Fujian)	• 10 years commencing from 01-01-2007 to 31-12-2016 • Consideration of a service fee

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

Date of agreement signed	Name of agreement	Summary of agreement	Terms of agreement
15-10-2007	Technical support service agreement	TQ Digital will provide technical support services to NetDragon (Fujian)	• 10 years commencing from 01-01-2007 to 31-12-2016 • Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
16-05-2008	Online game software development service agreement	TQ Online will provide online software development service to NetDragon (Fujian)	• 10 years commencing from 16-05-2008 to 15-05-2018 • Consideration of a service fee
16-05-2008	Technical support service agreement	TQ Online will provide technical support services to NetDragon (Fujian)	• 10 years commencing from 16-05-2008 to 15-05-2018 • Consideration of a per annum services fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues
01-03-2009	Cooperation and license agreements in respect of online games	TQ Online will license online game softwares to NetDragon (Fujian) for use in the PRC	• 10 years commencing from 01-03-2009 to 28-02-2019 • Consideration for an initial license fee and a per annum license fee determined as a percentage of NetDragon (Fujian)'s annual gross revenues

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

Equity Interest Pledge Agreement

On 28 September 2007, TQ Digital, NetDragon (Fujian) and all equity holders of NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to TQ Digital a continuing first priority security interests over their respective equity interests in the registered capital of NetDragon (Fujian), representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by NetDragon (Fujian)'s equity holders under the Structure Contracts.

Agreement for the Exclusive Right to Acquire Equity Interest and Assets

On 15 October 2007, TQ Digital, NetDragon (Fujian) and all of the equity holders of NetDragon (Fujian) entered into an agreement for the exclusive right to acquire equity interest and assets, pursuant to which NetDragon (Fujian) and all its equity holders granted to TQ Digital or its designee (a) a right to acquire part or all of the equity interest in the registered capital of NetDragon (Fujian); and (b) a right to acquire part or all of the assets of NetDragon (Fujian) from the equity holders of NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by TQ Digital to the equity holders of NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law. If the minimum amount of consideration stipulated under the relevant PRC laws and regulations is higher than the nominal amount at the time of exercise of the acquisition right, Liu Dejian, Liu Luyuan and Zheng Hui had jointly, severally and irrevocably undertaken to reimburse the Company or its subsidiaries of any amount in excess of the nominal amount.

Equity Holders' Voting Rights Proxy Agreement

On 15 October 2007, all equity holders of NetDragon (Fujian) entered into an equity holders' voting rights proxy agreement (the "Proxy Agreement") with TQ Digital and NetDragon (Fujian), pursuant to which all equity holders of NetDragon (Fujian) have irrevocably authorised TQ Digital or a nominee designated by TQ Digital (which will likely be a director of TQ Digital) to exercise all their voting rights in NetDragon (Fujian). The term of the Proxy Agreement shall continue indefinitely for so long as NetDragon (Fujian) subsists in order to secure our control over NetDragon (Fujian).

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

Other Contracts

In addition to the Structure Contracts, a service agreement (the "Original Service Agreement") which took effect on 1 July 2007, was entered into by and between NetDragon Websoft Inc. ("NetDragon (USA)") and NetDragon (Shanghai) pursuant to which NetDragon (Shanghai) will provide various services to NetDragon (USA) in exchange for a flat fee calculated based on the number of servers running certain non-Chinese language games. The Original Service Agreement was terminated by the parties thereto on 31 October 2008 for internal restructuring purpose. On 1 November 2008, NetDragon (Shanghai) entered into another service agreement (the "Existing Service Agreement") with NetDragon (Hong Kong) with the similar terms as and in substitution of the Original Service Agreement. Pursuant to the Existing Service Agreement, NetDragon (Shanghai) will: (1) provide email correspondence to answer inquiries from customers including payment and password related issues; (2) handle customer complaints regarding hacked accounts and assist such customers in resolving their concerns; and (3) monitor the status of certain servers and perform server maintenance when needed. The term of the Existing Service Agreement is five years.

The Directors expect that there may be other contracts, such as service agreement and/or cooperation and license agreement, to be entered from time to time (together with the Original Service Agreement and the Existing Service Agreement, the "Other Contract(s)") between the Company and its subsidiaries on the one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other after NetDragon (Shanghai) has obtained the requisite licenses for providing Internet content and operating online games. Save as the Original Service Agreement and the Existing Service Agreement, as at 31 December 2011, no Other Contract has been entered into.

Waiver from the Stock Exchange and Annual Review

As Liu Dejian, Liu Luyuan and Zheng Hui, being the executive Directors and the controlling shareholders of the Company, are interested in an aggregate of 98.86% in NetDragon (Fujian), NetDragon (Fujian) and NetDragon (Shanghai), being a subsidiary of NetDragon (Fujian), are technically associates of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other hand, including the Structure Contracts and the Other Contracts, would technically constitute connected transactions under the Listing Rules. The Stock Exchange has granted a specifc waiver to the Company from strict compliance with the connected transactions requirement of Chapter 14A of the Listing Rules in respect of the Structure Contracts and the Other Contracts. Details of the waiver, together with its conditions, are set forth in the listing document of the Company dated 27 May 2008 (the "Listing Document").

CONNECTED TRANSACTIONS (Cont'd)

STRUCTURE CONTRACTS (Cont'd)

Waiver from the Stock Exchange and Annual Review (Cont'd)

The Company's independent non-executive Directors have reviewed the Structure Contracts and the Other Contracts and confirmed that the relevant transactions carried out thereunder during the year ended 31 December 2011 have been entered into in accordance with the relevant provisions of the Structure Contracts and the Other Contracts, have been operated so as to allow the economic interest generated by NetDragon (Fujian) and NetDragon (Shanghai) to be flowed to TQ Digital and TQ Online and the Existing Service Agreement was entered into on terms that are fair and reasonable so far as the Company is concerned and in the interests of the shareholders of the Company as a whole.

NetDragon (Fujian) and NetDragon (Shanghai) have provided to the Company an undertaking that they will allow the Company and its auditor to have full access to relevant records of NetDragon (Fujian) and NetDragon (Shanghai).

CONTROL DOCUMENTS

91 Cooperation Framework Agreement

With a view to offer further protection to the interests of the 91 Limited and its shareholders as a whole by means of contractual arrangements, Fuzhou BoYuan Wireless Websoft Technology Ltd. ("Fuzhou BoYuan Wireless") and Fujian Bo Rui Websoft Technology Ltd. ("Fujian Bo Rui") entered into the control documents (the "Control Documents"), which superseded the cooperation arrangements between Fuzhou BoYuan Wireless and Fujian Bo Rui effective from 30 May 2011.

Under the Control Documents, Fujian Bo Rui is responsible to collect the revenue generated from the operation of the mobile Internet business. Through the Control Documents, we are able to recognize and receive the economic benefits of the business and operations of Fujian Bo Rui. The Control Documents enable Fuzhou BoYuan Wireless to control over and to acquire the equity interests in and/or assets of Fujian Bo Rui when permitted by the relevant PRC laws and regulations.

CONNECTED TRANSACTIONS (Cont'd)

CONTROL DOCUMENTS (Cont'd)

91 Cooperation Framework Agreement (Cont'd)

With a view to offer further protection to the interests of the Company and its shareholders as a whole by means of contractual arrangements, NetDragon (Fujian), Fuzhou BoYuan Wireless and / or Fujian Bo Rui, which is cloning the Structure Contracts, entered into the Control Documents.

Under the Control Documents, Fujian Bo Rui is responsible to collect the revenue generated from the operation of the mobile Internet business. Through the Control Documents, we are able to recognize and receive the economic benefits of the business and operations of Fujian Bo Rui. The Control Documents enable Fuzhou BoYuan Wireless to control over and to acquire the equity interests in and/or assets of Fujian Bo Rui when permitted by the relevant PRC laws and regulations.

On 30 May 2011, Fuzhou BoYuan Wireless and Fujian Bo Rui entered into a cooperation framework agreement (the "91 Coorperation Framework Agreement") pursuant to which Fuzhou BoYuan Wireless and Fujian Bo Rui agreed to cooperate in the provision of services relating to the mobile Internet business development for and the operation of the mobile Internet business of Fujian Bo Rui. The 91 Cooperation Framework Agreement and the terms of reference of the management committee (the "91 Management Committee") laid down the principles that the 91 Management Committee shall have right to determine the amount of license and service fees payable by Fujian Bo Rui with reference to the amount of expenditure incurred by Fujian Bo Rui in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) Fujian Bo Rui shall pay the maximum amount of fees to Fuzhou BoYuan Wireless without incurring any loss for each financial year; and (ii) the net asset value of Fujian Bo Rui shall not exceed approximately RMB10,000,000. Further details of 91 Management Committee are set out in the section of "Corporate Governance Report" under the paragraphs of "91 Management Committee". This principle will ensure that all of the net profit after tax of Fujian Bo Rui in each financial year shall be paid to Fuzhou BoYuan Wireless as service or license fees, and will give flexibility to the 91 Management Committee to implement the Control Documents and its underlying principles more effectively in response to constantly changing the PRC laws and regulation.

As a result of the Control Documents, Fuzhou BoYuan Wireless is able to control Fujian Bo Rui, accordingly, it is regarded as our subsidiaries and its results are to be consolidated into our financial statements. Since Fujian Bo Rui was under the common control of the same group of persons before and after our formation, the results and financial positions of Fujian Bo Rui is combined into our financial statements using merger accounting as if Fujian Bo Rui was part of us since its date of establishment or since the date when it first came under the common control.

CONNECTED TRANSACTIONS (Cont'd)

CONTROL DOCUMENTS (Cont'd)

91 Cooperation Framework Agreement (Cont'd)

In accordance with the terms of the 91 Cooperation Framework Agreement, Fuzhou BoYuan Wireless (where relevant) entered into the technical support service agreements with Fujian Bo Rui, for the purpose of license, development of mobile Internet business and provision of technical services to Fujian Bo Rui . Details of the agreement are set out below:

Date of agreement signed	Name of agreement	Summary of agreement	Terms of agreement
30-05-2011	Technical support service agreement	Fuzhou BoYuan Wireless will provide technical support services to Fujian Bo Rui	• 10 years commencing from 30-05-2011 to 29-05-2021 • Consideration of a per annum services fee determined as a percentage of Fujian Bo Rui's annual gross revenues

Equity Interest Pledged Agreement

On 30 May 2011, Fuzhou BoYuan Wireless, Fujian Bo Rui and NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to Fuzhou BoYuan Wireless a continuing first priority security interests over their respective equity interests in the registered capital of Fujian Bo Rui, representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by Fujian Bo Rui's equity holders under the Control Documents.

Agreement for the Exclusive Right to Acquire Equity Interest and Assets

On 30 May 2011, Fuzhou BoYuan Wireless, Fujian Bo Rui and NetDragon (Fujian) entered into an agreement for the exclusive right to acquire equity interest and assets, pursuant to which Fujian Bo Rui and NetDragon (Fujian) granted to Fuzhou BoYuan Wireless or its designee (a) a right to acquire part or all of the equity interest in the registered capital of Fujian Bo Rui; and (b) a right to acquire part or all of the assets of Fujian Bo Rui from NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by Fuzhou BoYuan Wireless to NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law.

CONNECTED TRANSACTIONS (Cont'd)

CONTROL DOCUMENTS (Cont'd)

Equity Holders' Voting Rights Proxy Agreement

On 30 May 2011, NetDragon (Fujian) entered into an equity holders' voting rights proxy agreement (the "Proxy Agreement") with Fuzhou BoYuan Wireless and Fujian Bo Rui, pursuant to which NetDragon (Fujian) have irrevocably authorised Fuzhou BoYuan Wireless or a nominee designated by Fuzhou BoYuan Wireless (which will likely be a director of Fuzhou BoYuan Wireless) to exercise all their voting rights in Fujian Bo Rui. The term of the Proxy Agreement shall continue indefinitely for so long as Fujian Bo Rui subsists in order to secure our control over Fujian Bo Rui.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions (the "Transactions") entered into by the Group constituted continuing connected transactions under the Listing Rules. Details of the Transactions subsisted during the year under review are set out as follows:

1. Transaction in relation to the Tenancy Agreements between TQ Digital, NetDragon (Fujian) and Fuzhou 851

   On 22 January 2009, TQ Digital, as tenant, entered into a tenancy agreement (the "851 Tenancy Agreement I") with Fuzhou 851, as landlord, with respect to the lease of certain office premises located in Fuzhou City, Fujian Province, the PRC for general office to superseded an old lease agreement pursuant to a letter of intent between NetDragon (Fujian) and Fuzhou 851. The term of the 851 Tenancy Agreement I is for a period of 3 years commenced from 22 January 2009 to 21 January 2012 (both days inclusive).

   On 22 January 2009, NetDragon (Fujian), as tenant, entered into a tenancy agreement (the "851 Tenancy Agreement II") with Fuzhou 851, as landlord, with respect to the lease of certain office premises located in Fuzhou City, Fujian Province, the PRC for general office superseded an old lease agreement between TQ Digital and Fuzhou 851 dated 30 May 2007 and an old lease agreement between NetDragon (Fujian) and Fuzhou 851 dated 30 May 2007. The term of the 851 Tenancy Agreement II is for a period of 3 years commenced from 22 January 2009 to 21 January 2012 (both days inclusive).

   Fuzhou 851 is a connected person of the Company under the Listing Rules. The Transactions under the 851 Tenancy Agreement I and the 851 Tenancy Agreement II (collectively the "851 Tenancy Agreements") constitute continuing connected transactions of the Company and should be aggregated under the Listing Rules. The aggregate annual cap for the 851 Tenancy Agreements based on the total annual rental payable under the 851 Tenancy Agreements for each of the financial years ended 31 December 2009, 2010 and 2011 should not exceed RMB2,544,384 (equivalent to approximately HKD2,875,154).

   Further details of the 851 Tenancy Agreements are set out on the announcement of the Company dated 22 January 2009.

CONNECTED TRANSACTIONS (Cont'd)

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

2. Transaction in relation to Recreation Centre Agreement between TQ Digital and Fuzhou 851

   On 24 April 2009, TQ Digital entered into a recreation centre agreement (the "Recreation Centre Agreement") with Fuzhou 851, pursuant to which Fuzhou 851 agreed to provide the services and usage of various recreation facilities at a recreation centre situated at Fuzhou City, Fujian Province, the PRC to the Group and its staff for a period from 25 April 2009 to 24 April 2012 at a monthly fee of RMB500,000 (equivalent to approximately HKD567,500). Upon the entering into of the Control Documents and to segregate the obligations between TQ Digital and Fujian Bo Rui, Fujian Bo Rui entered into two separate agreements with Fuzhou 851 on 10 August 2011 and 5 December 2011, respectively, in relation to the same services and usage of recreation facilities for the periods from 14 August 2011 to 31 December 2011 and from 1 January 2012 to 24 April 2012, respectively. The total expected fee and the annual cap under the Recreation Centre Agreement remain unchanged.

   Fuzhou 851 is a connected person of the Company under the Listing Rules. The Transactions under the Recreation Centre Agreement constitute continuing connected transactions of the Company under the Listing Rules. The annual cap based on the total annual service fee payable under the Recreation Centre Agreement for each of the financial years ended 31 December 2009, 2010 and 2011 on annual basis should not exceed RMB6,000,000 (equivalent to approximately HKD6,810,000), being the monthly service fee of RMB500,000 (equivalent to approximately HKD567,500) multiplied by 12 months.

   Further details of the Recreation Centre Agreement are set out in the announcement of the Company dated 27 April 2009.

3. Transaction in relation to Service Agreement between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang Network Technology Company Limited

   On 15 October 2007, TQ Digital and NetDragon (Fujian) have entered into an agreement (the "Service Agreement") for provision of repair and maintenance of computer system service and after-sales service with Fuzhou Tianliang Network Technology Company Limited ("Fuzhou Tianliang") pursuant to which, at the direction of TQ Digital, Fuzhou Tianliang agreed to provide to NetDragon (Fujian) computer system repair and maintenance service and after-sales service for online game customers on normal commercial terms which are no less favorable than those available from independent third parties. The term of the Service Agreement is for two and a half years commenced from 1 July 2007 to 31 December 2009.

CONNECTED TRANSACTIONS (Cont'd)

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

3. Transaction in relation to Service Agreement between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang Network Technology Company Limited (Cont'd)

The computer system repair and maintenance service mainly includes the routine system checking and maintenance and technical diagnosis and repair of system hardware, operating systems, database and application software which are vital to the operations of NetDragon (Fujian) as it ensures the smooth operation and upkeep of the computer systems on which the online games software are being run. On the other hand, the after-sales service mainly includes the provision of customer hotline services and assistance in responding to customers' enquiries and complaints in online forums and correspondences which are essential for customer management to enhance customer loyalty.

Since the Service Agreement has been expired on 31 December 2009, the Board announced that NetDragon (Fujian) entered into the new service agreement (the "New Service Agreement") with Fuzhou Tianliang on 29 December 2009, pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2010 to 31 December 2012. Upon the entering into of the Control Documents and to segregate the obligations between TQ Digital, NetDragon (Fujian) and Fujian Bo Rui, Fujian Bo Rui entered into a separate agreement and a supplementary agreement with Fuzhou Tianliang on 5 September 2011 and 1 January 2012, respectively, in relation to the after-sales service for the period from 5 September 2011 to 31 December 2012. The total expected fee and the annual cap under the New Service Agreement remain unchanged. The Directors estimate that the annual caps for value of the Transactions under the New Service Agreement for each of the financial years ended 31 December 2010 and 2011 and year ending 31 December 2012 are as follows:

	Year ended 31 December 2010	**Year ended 31 December 2011**	**Year ending 31 December 2012**
	RMB	*RMB*	*RMB*
Computer system repair and maintenance fees	2,500,000	2,600,000	2,600,000
After-sales service charges	11,500,000	12,200,000	12,200,000
Total	14,000,000	14,800,000	14,800,000

With reference to the announcement of 27 April 2009, the original shareholders of Fuzhou Tianliang have been changed, thus, Fuzhou Tianliang is deemed to be a connected person to the Company.

Further details of the New Service Agreement are set out in the announcements of the Company dated 27 April 2009 and 31 December 2009.

CONNECTED TRANSACTIONS (Cont'd)

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

4. Transaction in relation to the Tenancy Agreements between TQ Digital, Fuzhou BoYuan Wireless and Fujian Bo Rui

   On 28 December 2011, Fujian Bo Rui, as tenant, entered into a tenancy agreement (the "TQ Tenancy Agreement I") with TQ Digital, as landlord, with respect to the lease of certain office premises located in Fuzhou City, Fujian Province, the PRC for general office purposes. The term of the TQ Tenancy Agreement I is for a period of 3 years commenced from 1 January 2012 to 31 December 2014 (both days inclusive).

   On 28 December 2011, Fuzhou Bo Yuan Wireless, as tenant, entered into an tenancy agreement (the "TQ Tenancy Agreement II") with TQ Digital, as landlord, with respect to the lease of certain office premises located in Fuzhou City, Fujian Province, the PRC for general office purposes. The term of the TQ Tenancy Agreement II is for a period of 3 years commenced from 1 January 2012 to 31 December 2014 (both days inclusive).

   Fujian Bo Rui, through the Control Documents, is regarded as a subsidiary of Fuzhou BoYuan Wireless. Fuzhou BoYuan Wireless is an indirect wholly owned subsidiary of 91 Limited. 91 Limited is considered as a connected person of the Company under the Listing Rules and each of Fujian Bo Rui and Fuzhou BoYuan Wireless is considered as a connected person of the Company under Listing Rules. The transactions under the TQ Tenancy Agreement I and the TQ Tenancy Agreement II (collectively the "TQ Tenancy Agreements") constitute continuing connected transactions of the Company and should be aggregated under the Listing Rules. The aggregate annual cap for the years ending 31 December 2012, 2013 amd 2014 shall not exceed RMB1,626,000 (equivalent to approximately HKD2,002,000).

   Further details of the Tenancy Agreements are set out on the announcement of the Company dated 28 December 2011.

The independent non-executive Directors have reviewed the above Transactions conducted during the year ended 31 December 2011and confirmed that these Transactions:

(i) have been entered into in the ordinary and usual course of the business of the Group;

(ii) have been entered into either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties;

(iii) have been entered into in accordance with the 851 Tenancy Agreements, the Recreation Centre Agreement and the New Service Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

CONNECTED TRANSACTIONS (Cont'd)

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

(iv) have not exceeded their respective annual caps for the year ended 31 December 2011 as disclosed in the relevant announcements of the Company.

The above Transactions under the 851 Tenancy Agreements, the Recreation Centre Agreement and the New Service Agreement are also disclosed in note 37 of the Notes to the Consolidated Financial Statements as related party transactions of the Group.

In addition, the Company has engaged its auditor to report on the Structure Contracts, the Other Contracts, the Control Documents and the Transactions under the 851 Tenancy Agreements, the Recreation Centre Agreement and the New Service Agreement of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified letters containing the conclusions in respect of the Structure Contracts, the Other Contracts, the Control Documents and the Transactions under the 851 Tenancy Agreements, the Recreation Centre Agreement and the New Service Agreement set out above which are in compliance with the Rule 14A.38 of the Listing Rules.

CONNECTED TRANSACTIONS

1. Issue of Series A Preferred Shares by 91 Limited

On 30 May 2011, a share purchase agreement (the "Share Purchase Agreement") was entered into between 91 Limited, a subsidiary of the Company, and IDG Investors, who are connected persons of the Company and had advanced 91 Limited an aggregate amount of USD1,500,000 of the loan as of 30 May 2011 (the "Investor Indebtedness"), which was unsecured, non-interest bearing and repayable on demand, for the issue and sale of 15,384,000 Series A Preferred Shares at a consideration of USD3,999,840. The Series A Preferred Shares account for approximately 16% of the share capital of 91 Limited upon the full conversion of the preferred shares as at the closing of the Share Purchase Agreement (the "SPA Closing") . The holders of the Series A Preferred Shares have the right to convert the Series A Preferred Shares to ordinary shares at the conversion price of USD0.26 upon a qualified initial public offering or the receipt of notice for conversion by 91 Limited. 91 Limited has the right to redeem all Series A Preferred Shares at the redemption price of USD0.26 per Series A Preferred Share plus cumulative rate of return of 5% per annum and any declared but unpaid dividends on the Series A Preferred Shares after receipt of written request signed by the holders of at least two-thirds of the Series A Preferred Shares at any time after the fifth but not later than the tenth anniversary of the issuance date of Series A Preferred Shares.

As of 30 May 2011, the IDG Investors had advanced 91 Limited an aggregate amount of USD1,500,000, of the loan which is unsecured, non-interest bearing and repayable on demand. It is intended that such indebtedness would be utilised to partially set off the consideration under the Share Purchase Agreement.

On 13 August 2011, all conditions precedent under the Share Purchase Agreement had been fulfilled or waived and the SPA Closing took place. 91 Limited issued and sold to the investors a total of 15,384,000 Series A Preferred Shares and the Investor Indebtedness was utilized to partially set off the consideration payable by the investors for such issuance of Series A Preferred Shares under the Share Purchase Agreement.

CONNECTED TRANSACTIONS (Cont'd)

CONNECTED TRANSACTIONS (Cont'd)

2. Issue of promissery notes by 91 Limited

On 14 September 2011, a note purchase agreement (the "Note Purchase Agreement") was entered into between 91 Limited, a subsidiary of the Company, and IDG Investors who are connected persons of the Company. Pursuant to the Note Purchase Agreement, 91 Limited agreed to issue and sell to the IDG Investors the notes (the "Note(s)") in an aggregate principal amount of USD5,000,000, and each investor, severally but not jointly, agreed to purchase from 91 Limited, such Note in the aggregate principal amount as prescribed in the Note Purchase Agreement and in each case, at a purchase price equal to 100% of such aggregate principal amount of the Note purchased by such investor.

All conditions precedent under the Note Purchase Agreement had been fulfilled or waived and the closing of the Note Purchase Agreement (the "NPA Closing") took place on 21 September 2011. 91 Limited issued the Notes to the IDG Investors in an aggregate amount of USD5,000,000 and the total purchase price of the Notes had been received by 91 Limited.

On 10 February 2012, 91 Limited and the IDG Investors had agreed, pursuant to the terms and conditions of the Notes, 91 Limited issued 4,006,250 Series B Preferred Shares at a conversion price of USD1.2480499 to the IDG Investors. The aggregate principal amount owed by 91 Limited to the IDG Investors had been settled and the Notes thereafter be cancelled and ceased to have any effect whatsoever. The Note conversion had taken place on 17 February 2012 and 91 Limited had issued, in aggregate, 4,006,250 Series B Preferred Shares to the IDG Investors.

Further details of the Share Purchase Agreement, the SPA Closing, the Note Purchase Agreement, the NPA Closing and determination of Notes conversion price are set out in the announcements of the Company dated 30 May 2011, 15 August 2011, 14, 21 September 2011, 10 and 20 February 2012, respectively.

BOARD PRACTICES AND PROCEDURES

To the best knowledge of the Directors, the Company has complied with the requirements under the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules during the year under review.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

COMPETITION AND CONFLICT OF INTERESTS

Save as disclosed in the Listing Document, none of the Director or any of their respective associates, as defined in 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 31 December 2011 and as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, the Company repurchased a total of 13,971,000 shares on the Stock Exchange at an aggregate consideration of HKD55,401,035.00 before expenses.

Details of the share repurchase are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HKD	*HKD*	*HKD*
July 2011	1,871,500	4.75	4.51	8,661,655.00
September 2011	1,746,500	3.85	3.29	6,319,345.00
October 2011	10,353,000	4.00	3.66	40,420,035.00

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained the prescribed public float under the Listing Rules.

SHARE OPTION SCHEME

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

Details of the share options outstanding and movement during the year ended 31 December 2011 are as follows:

Grantee	Date of grant	Exercise Price	As at 1 January 2011	Number of share options			As at 31 December 2011
				Granted	Exercised	Lapsed	
		HKD					
Executive Directors							
Liu Dejian	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	28.04.2011	4.80	—	284,000	—	284,000	—
	22.07.2011	4.60	—	284,000	—	—	284,000
Liu Luyuan	07.12.2009	4.33	1,400,000	—	—	—	1,400,000
	28.04.2011	4.80	—	284,000	—	284,000	—
	22.07.2011	4.60	—	284,000	—	—	284,000
Zheng Hui	28.04.2011	4.80	—	284,000	—	284,000	—
	22.07.2011	4.60	—	284,000	—	—	284,000
Chen Hongzhan	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	28.04.2011	4.80	—	284,000	—	284,000	—
	22.07.2011	4.60	—	284,000	—	—	284,000

SHARE OPTION SCHEME (Cont'd)

Grantee	Date of grant	Exercise Price	As at 1 January 2011	Number of share options Granted	Exercised	Lapsed	As at 31 December 2011
		HKD					
Independent non-executive Directors							
Chao Guowei, Charles	28.04.2011	4.80	—	400,000	—	400,000	—
	22.07.2011	4.60	—	400,000	—	—	400,000
Lee Kwan Hung	28.04.2011	4.80	—	400,000	—	400,000	—
	22.07.2011	4.60	—	400,000	—	—	400,000
Liu Sai Keung, Thomas	28.04.2011	4.80	—	400,000	—	400,000	—
	22.07.2011	4.60	—	400,000	—	—	400,000
Others							
Employees	07.12.2009	4.33	2,200,000	—	—	—	2,200,000
	28.04.2011	4.80	—	13,754,900	—	553,500	13,201,400
	22.07.2011	4.60	—	1,345,500	—	31,000	1,314,500
Total			6,800,000	19,772,400	—	2,920,500	23,651,900

Notes:

1. On 28 April 2011, 16,090,900 share options were granted to the Directors and employees of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 28 April 2011 (the trading day immediately before the grant of the share options) was HKD4.80.

2. On 22 July 2011, 3,681,500 share options were granted to the Directors and employees of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 22 July 2011 (the trading day immediately before the grant of the share options) was HKD4.60.

3. During the year under review, no share options were exercised by any Directors or chief executive of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Main Board Share Option Scheme disclosed above and set out in note 31 of Notes to the Consolidated Financial Statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme") on 2 September 2008 (the "Adoption Date") in which selected employees (the "Selected Employee(s)") of the Group are entitled to participate. The purpose of the scheme is to recognise the contributions by certain employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date. The Board shall not grant any further award of shares which would result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a Selected Employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

Pursuant to the rules of the Share Award Scheme, the Group has entered into a trust deed with Bank of Communications Trustee Limited (the "Trustee") in respect of the appointment of the Trustee for the purpose of the administration of the Share Award Scheme and holding the awarded shares before they are vested.

As at 31 December 2008, the Board awarded an aggregate amount of approximately HKD16,094,000 (equivalent to approximately RMB14,120,000) for the purchase of shares to a number of Selected Employees. For the year ended 31 December 2011, the Trustee purchased 3,174,000 shares and the total payout, including the related transaction costs, amounted to approximately HKD16,100,000 (equivalent to approximately RMB14,200,000).

SHARE AWARD SCHEME (Cont'd)

Subject to the receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the Selected Employees within the period stipulated in the vesting notice issued by the Trustee to the Selected Employees; and (ii) a confirmation from the Company that all vesting conditions having been fulfilled, the awarded shares will be transferred to the Selected Employees at nil consideration upon vesting. As at 31 December 2011, details of the awarded shares under the Share Award Scheme were as follows:

Average price per share (HKD) *(note)*	Number of shares		
	As at 1 January 2011	Vested during the year	As at 31 December 2011
5.07	308,742	(229,065)	79,677

Note: These shares were purchased by the Trustee of the Share Award Scheme at an average price of HKD5.07 per share.

AUDITOR

Grant Thornton resigned as auditor of the Company with effect from 17 September 2009. Deloitte Touche Tohmatsu ("Deloitte") have been appointed as auditor of the Company to fill the casual vacancy following the resignation of Grant Thornton. Save for the change in September 2009, there has been no changes of auditor of the Company in any of the preceding three years.

A resolution will be submitted in the AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board
Liu Dejian
Chairman

Hong Kong, 26 March 2012

The Directors believe that good corporate governance practices serve as an effective risk management for the Company and hence, the shareholders of the Company will benefit from the high standard of corporate governance.

Throughout the year, the Company has complied with the principles set out in the Code on Corporate Governance Practices (the "CG Code Provisions") in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established its code of conduct regarding securities transaction by Directors, senior management and relevant employees on terms no less exacting than the required standard indicated by the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code during the period under review. In order to ensure strict compliance with the Model Code by all Directors, a refreshment discussion on the detailed guidelines for dealing in the Company's securities has been held by end of 2011.

THE BOARD

The Board is composed of four executive Directors (including the Chairman and the Chief Executive Officer of the Company) and four non-executive Directors (of whom three are independent non-executive Directors), whose biographical details are set out in "Directors and Senior Management" section on pages 54 to 59. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relevant relationship to one another.

Each of the non-executive and independent non-executive Directors has entered into an appointment letter with the Company, all for an initial term of three years commenced on 24 June 2008 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term unless and until terminated in accordance with the terms of the appointment letter or by either party thereto giving to the other not less than three months' prior written notice.

Duties of the Board including delegation to management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the committees and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the audit committee, the remuneration committee, the nomination committee and the share award scheme committee. Further details of these committees are set out in this report.

Duties of the Board include:

(i) ensuring, maintaining and overseeing the internal control systems of the Group;

(ii) setting the objectives of management of the Group;

(iii) monitoring the performance of management of the Group;

(iv) ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and

(v) overseeing the management of NetDragon's relationships with stakeholders, such as, shareholders, customers, the community, interest groups, employees and others who have a legitimate interest in the responsible conduct of the Group's business.

During the year, the Board held four meetings and the attendance of each of the Directors at Board and committee meetings held in 2011 is set out below:

Directors	Full Board	Audit Committee	Remuneration Committee	Nomination Committee	Share Award Scheme Committee
Executive Directors					
Liu Dejian *(Chairman)*	4/4	N/A	N/A	N/A	N/A
Liu Luyuan *(Chief Executive Officer)*	4/4	N/A	N/A	N/A	N/A
Zheng Hui	4/4	N/A	N/A	N/A	N/A
Chen Hongzhan	4/4	N/A	N/A	N/A	N/A
Non-executive Director					
Lin Dongliang	4/4	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Chao Guowei, Charles	3/4	4/4	1/1	1/1	N/A
Lee Kwan Hung	4/4	4/4	1/1	1/1	N/A
Liu Sai Keung, Thomas	4/4	4/4	1/1	1/1	N/A

Board and committee minutes are recorded in appropriate detail and are kept by the company secretary of the Company. Draft minutes are circulated to Directors for comments within reasonable time after each meeting and the final version is open for Directors' inspection.

The Directors are entitled, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

In full compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional accounting qualifications.

In addition, the Company has received from each of the independent non-executive Directors an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. These Directors' independence have been verified.

DIRECTORS' INTEREST IN CONTRACT

With reference to the Structure Contracts entered into between TQ Digital, TQ Online and NetDragon (Fujian), the executive Directors Liu Dejian, Liu Luyuan and Zheng Hui, are interested in an aggregate of 98.86% in NetDragon (Fujian). NetDragon (Shanghai), being a subsidiary of NetDragon (Fujian), is technically an associate of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other hand, including the Structure Contracts and the Other Contracts would technically constitute connected transactions. Details for the Structure Contracts and the Other Contracts are set out in pages 69 to 74 in the section of "Report of the Directors" under the paragraphs of "Structure Contracts".

With reference to the Control Documents entered into between Fujian Bo Rui, Fuzhou BoYuan Wireless, an indirect wholly owned subsidiary of 91 Limited, and NetDragon (Fujian), which held all equity interests of Fujian Bo Rui under the laws of the PRC, through the Control Documents, Fuzhou BoYuan Wireless is able to control Fujian Bo Rui and accordingly, Fujian Bo Rui will be regarded as a subsidiary of Fuzhou BoYuan Wirelesss. As the IDG Investors are members of the IDG Group which is a substantial shareholder of the Company and are entitled to exercise 10% or more of voting power at an general meeting of 91 Limited, and therefore connected persons of the Company. Transactions between the Company or its subsidiaries, except 91 Limited and 91 Group Companies on the one hand and 91 Limited or 91 Group Companies on the other hand, the Control Documents would technically constitute connected transactions. Details for the Control Documents are set out in pages 74 to 77 in the section of "Report of the Directors" under the paragraphs of "Control Documents".

With reference to the continuing connected transactions for the 851 Tenancy Agreements entered into between TQ Digital, NetDragon (Fujian) and Fuzhou 851 which is owned as to approximately 72.31% and 27.69% by DJM Holding Ltd., a substantial shareholder of the Company, Liu Dejian, an executive Director, respectively and with reference to the continuing connected transaction for the Recreation Centre Agreement entered into between TQ Digital and Fuzhou 851. Thus, Fuzhou 851 is deemed to be a connected person to the Company.

With reference to the continuing connected transaction for the New Service Agreement entered into between NetDragon (Fujian) and Fuzhou Tianliang which the original shareholders of Fuzhou Tianliang have been changed (with reference to the announcement of the Company on 27 April 2009), thus, Fuzhou Tianliang is deemed to be a connected person to the Company.

With reference to the continuing connected transactions for the TQ Tenancy Agreements entered into between Fujian Bo Rui, Fuzhou BoYuan Wireless and TQ Digital. Both Fujian Bo Rui and Fuzhou BoYuan are subsidiaries of 91 Limited, thus, are deemed to be connected persons to the Company.

Details for the continuing connected transactions are set out in pages 77 to 81 in the section of "Report of the Directors" under the paragraphs of "Continuing Connected Transactions".

Save as the above, none of the Directors is materially interested, either directly or indirectly, in any contract of significance of the Company during the year ended 31 December 2011 or as at the end of the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the chairman and the chief executive officer are held by Mr. Liu Dejian and Mr. Liu Luyuan, respectively.

In order to reinforce their respective independence, accountability and responsibility, the role of the chairman is separated from that of the chief executive officer. The chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice and ensuring the effectiveness of the Board. With the support of the senior management, the chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The chief executive officer focuses on managing the Company and its subsidiaries, developing and implementing objectives, policies and strategies approved and delegated by the Board. The chief executive officer is in charge of the Group's day-to-day management and operations and is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

AUDIT COMMITTEE

The Company established the audit committee on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision and has held four meetings during 2011. The primary duties of our 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 Goup. 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 the Structure Contracts, the Other Contracts and the 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 Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2011 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.

REMUNERATION COMMITTEE

The Company established the remuneration committee on 15 October 2007 which considers and recommends to our Board the remuneration and other benefits paid by us to our Directors and senior management, and has held one meeting during 2011. The remuneration of all our Directors and senior management is subject to regular monitoring by the remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

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

The terms of reference of the remuneration committee are posted the websites of the Stock Exchange and the Company.

EMPLOYEE AND EMOLUMENT POLICY

The emolument policy of the employees of the Company is set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the senior management of the Company are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, as authorised by shareholders at the AGM.

NOMINATION COMMITTEE

The Company established a nomination committee on 15 October 2007 which considers and recommends to our Board suitably qualified persons to become our Directors and is responsible for reviewing the structure, size and composition of our Board on a regular basis, and has held one meeting during 2011.

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

The terms of reference of the nomination committee are posted on the websites of Stock Exchange and the Company.

ND MANAGEMENT COMMITTEE

The Company established the ND Management Committee pursuant to the Structure Contracts to oversee the business and operations of NetDragon (Fujian). Through its control over NetDragon (Fujian), the ND Management Committee is also able to oversee the business and operations of NetDragon (Shanghai), being the subsidiary of NetDragon (Fujian). The ND Management Committee comprises four members, of which each of TQ Digital and NetDragon (Fujian) is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the ND Management Committee may only be removed by the party who originally appointed such member. As a general requirement, the members appointed by NetDragon (Fujian) must also be the equity holders of NetDragon (Fujian) as well as directors of TQ Digital. In the case where the number of members who concurrently act as a director of both TQ Digital and NetDragon (Fujian) is less than two, TQ Digital is entitled to appoint an additional member of the ND Management Committee. As such, under the Structure Contracts, the ND Management Committee is allowed to have a maximum of five members.

Currently, the ND Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by NetDragon

(Fujian), and Zheng Hui and Chen Hongzhan who were appointed by TQ Digital. The directors of NetDragon (Fujian) comprise Liu Dejian, Liu Luyuan, Zheng Hui, being executive Directors, Wu Jialiang, being a member of our senior management, and Lin Lizhi, being our general manager. Zheng Hui, an executive Director, is the only director of NetDragon (Shanghai). Further details of the above members of the ND Management Committee are set out in the section headed "Directors and Senior Management" in this annual report.

91 MANAGEMENT COMMITTEE

91 Limited established the 91 Management Committee pursuant to the Control Documents to oversee the business and operations of Fujian Bo Rui. Through its control over Fujian Bo Rui, the 91 Management Committee is also able to oversee the business and operations of the subsidiaries of Fujian Bo Rui. The 91 Management Committee comprises four members, of which each of Fuzhou Bo Yuan Wireless and Fujian Bo Rui is entitled to appoint two members from its respective board of directors. Other than by reason of retirement, resignation, incapability or death, a member of the 91 Management Committee may only be removed by the party who originally appointed such member. As a general requirement, the members appointed by Fujian Bo Rui must also be the members of ND Management Committee appointed by NetDragon (Fujian) and the members appointed by Fuzhou Bo Yuan Wireless must also be the members of ND Management Committee appointed by TQ Digital. In the case where the number of members who concurrently act as a director of both Fuzhou Bo Yuan Wireless and Fujian Bo Rui is less than two, Fuzhou Bo Yuan Wireless is entitled to appoint an additional member of the 91 Management Committee. As such, under the Control Documents, the 91 Management Committee is allowed to have a maximum of five members.

Currently, the 91 Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by Fujian Bo Rui, and Zheng Hui and Chen Hongzhan who were appointed by Fuzhou Bo Yuan Wireless. The directors of Fujian Bo Rui comprise Liu Dejian, Liu Luyuan, Zheng Hui, being executive Directors, Wu Jialiang, being a member of our senior management, and Lin Lizhi, being our general manager. Zheng Hui, an executive Director, is the only director of NetDragon (Shanghai). Further details of the above members of the 91 Management Committee are set out in the section headed "Directors and Senior Management" in this annual report.

SHARE AWARD SCHEME COMMITTEE

In recognition of the contribution of employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group, the Company established a share award scheme committee on 2 September 2008 for the purpose of administration of the Share Award Scheme.

Our share award scheme committee comprises two independent non-executive Directors, namely Lee Kwan Hung and Liu Sai Keung, Thomas and two members of the senior management, namely Wu Chak Man and Tam Hon Shan, Celia.

The terms of reference of the share award scheme committee are posted on the website of the Company.

INTERNAL CONTROL

The Board has overall responsibility for maintaining an effective internal control system of the Group. The Company has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management.

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

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's external auditors, is set out as follows:

	RMB'000
Audit services	1,288
Non-audit services	1,550
	2,838

The above non-audit services include professional advisory fees relating to the quarterly review services, accounting services and internal control review.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The market capitalization of the Company as at 31 December 2011 was approximately HKD2,362.0 million (entired issued share capital: 514,599,860 shares) at closing market price: HKD4.59 per share. The public float is around 33.0%.

The AGM will be held at Conference Room 2, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 18 May 2012.

Deloitte.
德勤

TO THE MEMBERS OF NETDRAGON WEBSOFT INC.
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of NetDragon Websoft Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 99 to 180, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a and true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Revenue	5	**760,974**	531,772
Cost of revenue		**(75,032)**	(66,333)
Gross profit		**685,942**	465,439
Other income and gains	5	**38,156**	60,864
Selling and marketing expenses		**(140,340)**	(101,993)
Administrative expenses		**(210,941)**	(182,022)
Development costs		**(159,269)**	(162,234)
Other expenses		**(11,594)**	(10,392)
Loss on changes in fair value of conversion option derivative	27	**(17,792)**	—
Finance costs	6	**(3,806)**	—
Share of losses of associates		**(581)**	—
Profit before taxation		**179,775**	69,662
Taxation	8	**(44,532)**	(34,769)
Profit for the year	9	**135,243**	34,893
Other comprehensive (expense) income:			
Exchange differences arising on translation of foreign operations		**(1,452)**	(172)
Gain on revaluation of property		**—**	673
		(1,452)	501
Total comprehensive income for the year		**133,791**	35,394
Profit for the year attributable to:			
– Owners of the Company		**135,161**	34,949
– Non-controlling interests		**82**	(56)
		135,243	34,893

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTE	2011 RMB'000	2010 RMB'000
Total comprehensive income attributable to:			
– Owners of the Company		**133,709**	35,450
– Non-controlling interests		**82**	(56)
		133,791	35,394
		RMB cents	RMB cents
Earnings per share	12		
– Basic		**25.85**	6.64
– Diluted		**25.85**	6.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	13	**192,119**	128,534
Prepaid lease payments	14	**86,298**	87,753
Investment property	15	**15,809**	14,551
Deposit paid for acquisition of property, plant and equipment	16	**19,050**	19,050
Intangible assets	17	**4,520**	13,136
Interests in associates	18	**12,669**	—
Available-for-sale investments	19	**4,000**	4,000
Loan receivables	20	**6,314**	5,819
Deferred tax assets	21	**54**	54
		340,833	272,897
Current assets			
Prepaid lease payments	14	**1,784**	1,784
Loan receivables	20	**1,091**	893
Trade receivables	22	**41,555**	24,393
Other receivables, prepayments and deposits		**41,429**	40,072
Held for trading investments	23	**—**	1,079
Amount due from a related company	24	**1,200**	171
Bank deposits	25	**40,000**	340,828
Bank balances and cash	25	**1,428,928**	877,823
		1,555,987	1,287,043

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Current liabilities			
Trade payables	26	**5,001**	519
Other payables and accruals		**121,353**	58,218
Deferred income		**25,528**	23,119
Amounts due to related companies	28	**965**	—
Amount due to a shareholder	28	**—**	5,328
Promissory notes	29	**30,623**	—
Income tax payable		**42,849**	21,599
		226,319	108,783
Net current assets		**1,329,668**	1,178,260
Total assets less current liabilities		**1,670,501**	1,451,157
Non-current liabilities			
Redeemable convertible preferred shares	27	**131,675**	—
Conversion option derivative liability	27	**39,932**	—
		171,607	—
Net assets		**1,498,894**	1,451,157
Capital and reserves			
Share capital	30	**38,226**	39,264
Share premium and reserves		**1,461,126**	1,412,433
Equity attributable to owners of the Company		**1,499,352**	1,451,697
Non-controlling interests		**(458)**	(540)
		1,498,894	1,451,157

The consolidated financial statements on pages 99 to 180 were approved and authorised for issue by the Board of Directors on 26 March 2012 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company														
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000 (Note 1)	Other reserve RMB'000 (Note 2)	Capital reserve RMB'000 (Note 3)	Statutory reserves RMB'000 (Note 4)	Dividend reserve RMB'000	Revaluation reserve RMB'000	Treasury share reserve RMB'000 (Note 5)	Employee share-based compensation reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	39,264	1,157,364	1,963	–	9,946	114,642	23,270	–	(10,757)	4,641	(56,491)	172,463	1,456,305	(484)	1,455,821
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	–	–	34,949	34,949	(56)	34,893
Other comprehensive income (expenses) for the year	–	–	–	–	–	–	–	673	–	–	(172)	–	501	–	501
Total comprehensive income (expenses) for the year	–	–	–	–	–	–	–	673	–	–	(172)	34,949	35,450	(56)	35,394
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	6,268	–	–	6,268	–	6,268
Final dividend for 2009 paid	–	–	–	–	–	–	(23,270)	–	–	–	–	–	(23,270)	–	(23,270)
Interim dividend for 2010 declared and paid	–	–	–	–	–	–	–	–	–	–	–	(23,056)	(23,056)	–	(23,056)
Final dividend for 2010 proposed	–	–	–	–	–	–	8,994	–	–	–	–	(8,994)	–	–	–
Awarded shares vested to employees	–	–	–	–	–	–	–	–	2,263	(1,370)	–	(893)	–	–	–
Transfers	–	–	–	–	–	6,697	–	–	–	–	–	(6,697)	–	–	–
	–	–	–	–	–	6,697	(14,276)	–	2,263	4,898	–	(39,640)	(40,058)	–	(40,058)
At 31 December 2010	39,264	1,157,364	1,963	–	9,946	121,339	8,994	673	(8,494)	9,539	(56,663)	167,772	1,451,697	(540)	1,451,157
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	135,161	135,161	82	135,243
Other comprehensive expenses for the year	–	–	–	–	–	–	–	–	–	–	(1,452)	–	(1,452)	–	(1,452)
Total comprehensive (expenses) income for the year	–	–	–	–	–	–	–	–	–	–	(1,452)	135,161	133,709	82	133,791
Deemed contribution from a substantial shareholder	–	–	–	2,209	–	–	–	–	–	–	–	–	2,209	–	2,209
Repurchase and cancellation of shares	(1,038)	(44,359)	1,038	–	–	–	–	–	–	–	–	(1,038)	(45,397)	–	(45,397)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	10,085	–	–	10,085	–	10,085
Final dividend for 2010 paid	–	–	–	–	–	–	(8,994)	–	–	–	–	–	(8,994)	–	(8,994)
Interim dividend for 2011 declared and paid	–	–	–	–	–	–	–	–	–	–	–	(43,957)	(43,957)	–	(43,957)
Final dividend for 2011 proposed	–	–	–	–	–	–	50,062	–	–	–	–	(50,062)	–	–	–
Awarded shares vested to employees	–	–	–	–	–	–	–	–	942	(570)	–	(372)	–	–	–
Transfers	–	–	–	–	–	19,544	–	–	–	–	–	(19,544)	–	–	–
	(1,038)	(44,359)	1,038	2,209	–	19,544	41,068	–	942	9,515	–	(114,973)	(86,054)	–	(86,054)
At 31 December 2011	38,226	1,113,005	3,001	2,209	9,946	140,883	50,062	673	(7,552)	19,054	(58,115)	187,960	1,499,352	(458)	1,498,894

Notes:

1. The amount represented the nominal value of the shares repurchased by the Company.

2. Other reserve represented the deemed contribution arising from the promissory notes issued to a substantial shareholder of the company which is interest-free. The details of the promissory notes are set out in Note 29 to the consolidated financial statements.

3. Capital reserve arose on combining the results and financial positions of the companies of 福建網龍計算機網絡信息技術有限公司 (Fujian NetDragon Websoft Co., Ltd.) ("NetDragon (Fujian)") and 上海天坤數碼科技有限公司 (Shanghai Tiankun Digital Technology Limited) ("NetDragon (Shanghai)") using the principles of merger accounting.

4. As stipulated by the relevant laws and regulations for enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain statutory reserves. Appropriation to such reserve is made out of profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by its board of directors annually. The statutory reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

5. Treasury share reserve is comprised of the consideration paid for the treasury shares held for the share award scheme, including any attributable incremental costs for the purchase of shares under the share award scheme.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**179,775**	69,662
Adjustments for:		
Share of losses of associates	**581**	—
Gain on disposal of jointly controlled entities	**—**	(4,000)
Gain on fair value changes of investment property	**(1,990)**	(3,573)
Loss on changes in fair value of conversion option derivative	**17,792**	—
Finance costs	**3,806**	—
Interest income	**(11,755)**	(12,344)
Net gain on held for trading investments	**(1,348)**	(4,655)
Release of prepaid lease payments	**1,455**	566
Amortisation of intangible assets	**11,363**	6,856
Depreciation of property, plant and equipment	**35,923**	51,447
Share-based payments expense	**10,085**	6,268
Loss on disposal of property, plant and equipment	**42**	366
Allowances on trade receivables	**179**	16
Operating cash flows before movements in working capital	**245,908**	110,609
Increase in trade receivables	**(17,312)**	(10,281)
(Increase) decrease in other receivables, prepayments and deposits	**(1,227)**	28,269
Decrease in held for trading investments	**2,427**	3,968
Increase in amount due from a related company	**(1,029)**	(171)
Increase in trade payables	**4,482**	234
Increase (decrease) in other payables and accruals	**63,135**	(9,958)
Increase in deferred income	**2,409**	4,930
Increase in amounts due to related companies	**965**	—
Cash generated from operations	**299,758**	127,600
Income tax paid	**(23,282)**	(23,085)
NET CASH FROM OPERATING ACTIVITIES	**276,476**	104,515

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	NOTE	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Interest received		**11,625**	10,582
Proceeds from disposal of interests in jointly controlled entities		**—**	4,000
Acquisition of assets through acquisition of a subsidiary	32	**—**	(58,149)
Acquisitions of associates		**(13,250)**	—
Proceeds from disposal of property, plant and equipment		**420**	317
Placement of bank deposits		**(10,000)**	—
Withdrawal of bank deposits		**310,828**	211,142
Advance of loan receivables		**(693)**	—
Repayment of loan receivables		**—**	1,494
Repayment of a jointly controlled entity		**—**	29,000
Purchase of prepaid lease payments		**—**	(33,901)
Purchase of property, plant and equipment		**(100,904)**	(30,146)
Purchase of intangible assets		**(3,088)**	(7,250)
Deposit paid for acquisition of property, plant and equipment		**—**	(19,050)
NET CASH FROM INVESTING ACTIVITIES		**194,938**	108,039
FINANCING ACTIVITIES			
Proceeds from issue of promissory notes		**31,774**	—
Proceeds from issue of redeemable convertible preferred shares		**151,857**	—
Dividends paid		**(52,951)**	(46,326)
(Repayment of) advance from a shareholder		**(5,328)**	5,328
Payment for repurchase of shares		**(45,397)**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**79,955**	(40,998)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**551,369**	171,556
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**877,823**	705,053
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(264)**	1,214
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		**1,428,928**	877,823

1. GENERAL

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

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) - Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures - Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. Based on the Group's financial assets and financial liabilities as at 31 December 2011, the directors anticipate that the adoption of HKFRS 9 in the future will affect the classification and measurement of the Group's available-for-sale investments and have no significant impact on the amounts of the Group's other financial assets and financial liabilities. Regarding the Group's available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011) and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC)-Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. The directors anticipate that the application of these five standards may not have significant impact on amounts reported in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group's consolidated financial statements for annual periods beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of other new or revised standards may not have material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special propose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivables for services provided in the normal course of business.

The Group sells pre-paid game cards to distributors and online game players. With the pre-paid game cards, online game players can credit their online game accounts with game points which can be used for the consumption of certain online games of the Group or for purchasing virtual products or premium features for the consumption of other online games of the Group which are free-to-play. The virtual products or premium features purchased by the customers are usually used by them only for a few days. The game players can also credit their online user accounts directly. Such income received is deferred and recorded as deferred income under current liabilities and would be recognised as revenue (i.e. online game revenue) upon the actual usage of the game points. Revenue recognised in respect of operating the online games is net of any discounts.

Mobile Internet revenue represents online advertising revenues and derived from fees for selling advertising space on the Group's mobile application in the forms such as banners, links and logos, and delivery of search-based advertising by various means throughout the community created by the Group.

For advertising contracts based on the actual time period that the advertisements appear on the Group's mobile application, the revenues are recognised rateably over the period in which the advertisements are displayed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and building held for use in the production or supply of goods or services, or for administrative purposes (other than constriction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties (Cont'd)

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets

Intangible assets acquired separately with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into an operating lease, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transactions cost directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets at FVTPL

Financial assets at FVTPL are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivables, trade receivables, other receivables, amount due from a related company, bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities including trade payables, other payables, accruals, amounts due to related companies and amount due to a shareholder are subsequently measured at amortised cost, using the effective interest method for debt instruments.

Equity instruments

Equity instruments issued by the group entity are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Redeemable convertible preferred shares

Redeemable convertible preferred shares issued by the Group that contain both liability and conversion and early redemption option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the subsidiary of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion and early redemption option components are recognised at fair value.

In subsequent periods, the liability component of the redeemable convertible preferred shares is carried at amortised cost using the effective interest method. The conversion and early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the redeemable convertible preferred shares are allocated to the liability and conversion and early redemption option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the redeemable convertible preferred shares using the effective interest method.

Promissory notes

Promissory notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option component of the promissory notes that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the subsidiary of the Company's own equity. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of promissory notes are measured at amortised cost, using the effective interest rate method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payment transactions

Equity-settled share-based payment transactions

Share option scheme

The fair value of services rendered determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

Share award scheme

The Group operates a share award scheme which allows it to grant shares to selected employees. For the shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity (employee share-based compensation reserve).

At the time when the awarded shares are vested, the amount previously recognised in treasury share reserve and the amount of the employee share-based compensation reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible assets arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are recognised as an expense when employees have rendered services entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policy

The following is the critical judgement, apart from those involving estimation (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Accounting for companies governed under contractual arrangements as subsidiaries

The Company and its subsidiaries do not hold any equity interests in NetDragon (Fujian), nor, in any of NetDragon (Fujian)'s subsidiaries, NetDragon (Shanghai) and Fujian Bo Rui Wireless Websoft Technology Ltd.("Fujian BoRui"). Nevertheless, under the contractual agreements entered into between the Group, NetDragon (Fujian) and the Ultimate Controlling Shareholders who are the registered owners of NetDragon (Fujian), management determines that the Group has the power to govern the financial and operating policies of NetDragon (Fujian), NetDragon (Shanghai) and Fujian BoRui so as to obtain benefits from their activities. As such, NetDragon (Fujian), NetDragon (Shanghai) and Fujian BoRui are accounted for as subsidiaries of the Group for accounting purposes.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Critical judgements in applying the entity's accounting policy (Cont'd)

Accounting for companies governed under contractual arrangements as subsidiaries (Cont'd)

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB599,604,000 (2010:RMB431,103,000) for the year ended 31 December 2011. At 31 December 2011, total assets and total liabilities of these entities amounted to approximately RMB144,785,000 (2010:RMB169,485,000) and RMB308,833,000 (2010:RMB209,338,000).

Key source of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Online game revenue recognition

Online game revenue is recognised based on the actual consumption of the relevant game points. Income received in respect of unutilised game points including those arising from unactivated pre-paid game cards is recognised as deferred income. Online game income received is net of discounts given to certain distribution and sales channels. The amount of deferred income arising from unactivated pre-paid game cards is extracted from the accounting system of the Group. As to the amount of deferred income in respect of other unutilised game points, management's estimation is required in determining the average sales value of these unutilised game points as discounts given are different for different sales channels.

In assessing the amount of average sales value for the unutilised game points, management considers the discount rate applicable to each of the distribution and sales channels and the income received via different distribution and sales channels. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to those unutilised game points at year end. The average sales value of each game point is then determined by factoring the average discount rate to the face value of the game point. If the actual sales value of the unutilised game points differs from management's estimates, the amount of deferred income as well as online game revenue recognised would be affected.

Allowances on trade receivables

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and the allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at an effective interest rate computed at initial recognition. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE, OTHER INCOME AND GAINS

	2011 RMB'000	2010 RMB'000
Revenue		
Online game revenue	701,565	531,772
Mobile Internet business revenue *(Note a)*	59,409	—
	760,974	531,772
Other income and gains		
Gain on fair value changes of investment property	1,990	3,573
Gain on disposal of jointly controlled entities	—	4,000
Government grants *(Note b)*	18,659	26,759
Interest income	11,755	12,344
Mobile Internet business income *(Note a)*	—	6,656
Net gain on held for trading investments	1,348	4,655
Rental income, net of nil outgoings (2010: RMB1,000)	303	96
Others	4,101	2,781
	38,156	60,864

Notes:

a. For the year ended 31 December 2011, the management considered that income derived from the mobile Internet business constituted revenue from one of the Group's principal activities due to the rapid expansion of the mobile Internet business during the year. Therefore, the mobile Internet business income has been recorded as revenue for the year ended 31 December 2011 whereas it had been classified as other income and gains for the year ended 31 December 2010 as mobile Internet business was not considered as principal activity of the Group for the year ended 31 December 2010.

b. Government grants were received from the government of the PRC mainly 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.

6. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on:		
– Promissory notes	1,309	—
– Redeemable convertible preferred shares (Note 27)	2,497	—
	3,806	—

7. 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.

In the past, there was only one business component in the internal reporting to the CODM, which is the online game development and operation and marketing of those online games. During the year ended 31 December 2011, the CODM considered that it is in the best interests to the shareholders of the Company to assess the operating results of the Group in terms of resource allocation and performance assessment by nature of services provided, which are online game and mobile Internet business. Accordingly, it is determined that the Group was engaged in two operating segments, online game and mobile Internet business. The comparative figures have been restated as a result of the change of segment information presented. This is the basis upon which the Group is organised.

The following is an analysis of the Group´s revenue and results by operating segment:

2011

	Online game RMB'000	Mobile Internet business RMB'000	Total RMB'000
Segment revenue	701,565	59,409	760,974
Segment profit (loss)	279,359	(9,374)	269,985
Unallocated income and gains			19,538
Unallocated expenses			(109,167)
Share of losses of associates			(581)
Profit before taxation			179,775

7. SEGMENT INFORMATION (Cont'd)

2010 (Restated)

	Online game RMB'000	Mobile Internet business RMB'000	Total RMB'000
Segment revenue	531,772	6,656	538,428
Less: Classified as other income and gains			(6,656)
Consolidated total			531,772
Segment profit (loss)	124,515	(16,169)	108,346
Unallocated income and gains			20,966
Unallocated expenses			(59,650)
Profit before taxation			69,662

The CODM assesses segment profit or loss using a measure of operating result whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, share of losses of associates, income tax expenses, unallocated income, gains and expenses and finance costs, loss on changes in fair value of conversion option derivative). 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.

7. SEGMENT INFORMATION (Cont'd)

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

	2011 RMB'000	2010 RMB'000
Online game	**1,513,587**	1,284,684
Mobile Internet business	**216,745**	5,755
Total segment assets	**1,730,332**	1,290,439
Unallocated	**166,488**	269,501
	1,896,820	1,559,940

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, 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.

Geographical information

The Group's operations are mainly located in the PRC.

The Group's revenue from external customers by geographical locations are detailed below:

	2011 RMB'000	2010 RMB'000
PRC	**630,948**	414,003
United States of America ("USA")	**125,365**	113,643
Others	**4,661**	4,126
	760,974	531,772

7. SEGMENT INFORMATION (Cont'd)

Geographical information (Cont'd)

The Group's non-current assets, excluding available-for-sale investments, loan receivables and deferred tax assets, by geographical location of assets are detailed below:

	2011	2010
	RMB'000	RMB'000
PRC	**291,536**	219,082
Hong Kong	**38,835**	43,919
USA	**94**	23
	330,465	263,024

No single customers of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2011 and 2010.

8. TAXATION

	2011 RMB'000	2010 RMB'000
The charge comprises:		
Hong Kong Profits Tax	**6,531**	1,649
The PRC Enterprise Income Tax ("EIT")		
– Current year	**27,681**	9,218
– Withholding tax	**10,100**	3,591
– Attributable to change in concessionary rates for technical service income	**–**	20,082
	37,781	32,891
Taxation in other jurisdiction	**220**	229
	44,532	34,769

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

The PRC EIT is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Fujian TQ Digital Inc. ("TQ Digital") is a wholly foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 10 September 2009. Pursuant to the Circular on Some Preferential Policies for the EIT （關於實施高新技術企業所得稅優惠有關問題的通知） issued by the State Administration of Taxation (the "SAT")（國家稅務總局）on 22 April 2009, TQ Digital is entitled to 50% tax reduction on a preferential income tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years and TQ Digital continued to be recognised as a hi-tech enterprise for the years ended 31 December 2011 and 2010.

8. TAXATION (Cont'd)

On 21 April 2010, the SAT clarified that entity approved to be a hi-tech enterprise should apply the 50% tax reduction for the technical service income on the statutory tax rate of 25% with retrospective effect from 1 January 2008 onwards. The management of TQ Digital has been engaged in negotiations with the provincial government and tax bureau and the Fujian Provincial State Tax Bureau （福建省國家稅務局）has agreed in principle to observe the practice of other locations at that time and to defer to draw a conclusion, until the end of the year 2010, as to whether it should implement the said clarification from SAT immediately. In December 2010, the Fujian Provincial State Tax Bureau（福建省國家稅務局） finally decided to implement such a circular. Hence, the tax rate for the technical service income has been increased from 7.5% to 12.5% and applied retrospectively from 1 January 2008. The tax effect of changes in tax rate for the years ended 31 December 2008 and 2009 was approximately RMB20,082,000 and has been recorded as "attributable to changes in concessionary rates for technical services income" in 2010.

Under the Law of People's Republic of China on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of NetDragon (Fujian) is 25% from 1 January 2008 onwards.

NetDragon (Shanghai) was approved to be a hi-tech enterprise in 2009 and has obtained the approval to enjoy 50% reduction in EIT rate for the period from 1 January 2009 to 31 December 2011. Thus, NetDragon (Shanghai) was entitled to pay EIT at the reduced tax rate of 12.5% for the year ended 31 December 2011 (2010: 12.5%).

Pursuant to the relevant laws and regulations in the PRC, Fujian TQ Online Interactive Inc. ("TQ Online") is exempted from PRC EIT for two years starting from its first profit making year, followed by a 50% reduction for the next three years. Thus, TQ Online was entitled to pay EIT at the reduced tax rate of 12.5% for the year ended 31 December 2011 (2010: Nil).

For the year ended 31 December 2011, the USA income tax rates applicable to NetDragon Websoft Inc. are 34% (2010: 34%) for federal tax and 8.84% (2010: 8.84%) for state income tax.

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

8. TAXATION (Cont'd)

The tax charge for the year is reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2011 RMB'000	2010 RMB'000
Profit before taxation	**179,775**	69,662
Tax at the applicable tax rate of 25% (2010: 25%) *(Note a)*	**44,944**	17,416
Tax effect of share of losses of associates	**145**	—
Tax effect of income not taxable for tax purpose	**(3,907)**	(156)
Tax effect of expenses not deductible for tax purpose	**22,243**	9,903
Tax effect of temporary difference not recognised	**6,175**	6,546
Utilisation of tax losses previously not recognised	**(3,279)**	(2,747)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,353)**	(829)
Additional tax benefit on research and development expenses *(Note b)*	**(6,632)**	(7,612)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	**(22,029)**	(11,377)
Withholding tax on undistributed earnings of the PRC subsidiary	**10,100**	3,591
Tax effect of change in concessionary rates applied retrospectively	**—**	20,082
Others	**125**	(48)
Tax charge for the year	**44,532**	34,769

Notes:

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2011 and 2010.

b. Pursuant to the relevant tax rules and regulations, the Group can obtain additional tax benefit, which is equivalent to 50% of the salary and depreciation under development costs incurred for the development of new games and advanced technology development.

Details of deferred taxation are set out in Note 21.

9. PROFIT FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit for the year has been arrived at after charging:		
Staff costs:		
Directors' emoluments	**5,437**	6,377
Other staff costs		
Salaries and other benefits	**234,451**	224,018
Contributions to retirement benefits schemes	**19,575**	17,545
Share-based payments expense	**7,337**	2,187
	266,800	250,127
Auditor's remuneration		
– audit services	**1,288**	611
– non-audit services	**1,550**	906
	2,838	1,517
Allowances on trade receivables	**179**	16
Amortisation of intangible assets (included in cost of revenue)	**7,427**	4,818
Amortisation of intangible assets (included in other expenses)	**3,936**	2,038
Release of prepaid lease payments (included in administrative expenses)	**1,455**	566
Depreciation of property, plant and equipment	**35,923**	51,447
Operating lease rentals in respect of		
– rented premises	**15,346**	22,020
– computer equipment	**38,782**	36,359
Net foreign exchange loss	**15,202**	14,438
Loss on disposal of property, plant and equipment	**42**	366

10. DIRECTORS' AND EMPOLYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the eight (2010: eight) directors of the Company were as follows:

	2011				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	—	485	—	770	1,255
Mr. Liu Luyuan	—	486	11	683	1,180
Mr. Zheng Hui	—	131	11	71	213
Mr. Chen Hongzhan	—	646	11	770	1,427
Non-executive director					
Mr. Lin Dongliang	—	—	—	—	—
Independent non-executive directors					
Mr. Chao Guowei, Charles	303	—	—	151	454
Mr. Lee Kwan Hung	303	—	—	151	454
Mr. Liu Sai Keung, Thomas	303	—	—	151	454
	909	1,748	33	2,747	5,437

10. DIRECTORS' AND EMPOLYEES' EMOLUMENTS (Cont'd)

Directors' emoluments (Cont'd)

	2010				
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions to retirement benefits schemes RMB'000	Share-based payments expense RMB'000	Total RMB'000
Executive directors					
Mr. Liu Dejian	—	455	—	1,342	1,797
Mr. Liu Luyuan	—	470	11	1,173	1,654
Mr. Zheng Hui	—	121	10	—	131
Mr. Chen Hongzhan	—	395	9	1,341	1,745
Non-executive director					
Mr. Lin Dongliang	—	—	—	—	—
Independent non-executive directors					
Mr. Chao Guowei, Charles	275	—	—	75	350
Mr. Lee Kwan Hung	275	—	—	75	350
Mr. Liu Sai Keung, Thomas	275	—	—	75	350
	825	1,441	30	4,081	6,377

Employees' emoluments

The emoluments of the five highest paid individuals included two (2010: three) executive directors of the Company, whose emoluments are included in the disclosures above. The emoluments of the remaining three individuals (2010: two) were as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	**5,314**	6,244
Contribution to retirement benefits schemes	**32**	21
	5,346	6,265

10. DIRECTORS' AND EMPOLYEES' EMOLUMENTS (Cont'd)

Employees' emoluments (Cont'd)

Their emoluments were within the following bands:

	2011 Number of employees	2010 Number of employees
HKD1,000,001 to HKD1,500,000	**1**	—
HKD2,000,001 to HKD2,500,000	**2**	—
HKD3,000,001 to HKD3,500,000	**—**	2
	3	2

During the year ended 31 December 2011, no emoluments have been paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during the year ended 31 December 2011 (2010: nil).

11. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Dividends recognised as distribution during the year:		
2011 Interim - HKD0.10 (2010: 2010 Interim dividend of HKD0.05) per share	**43,957**	23,056
2010 Final - HKD0.02 (2010: 2009 Final dividend of HKD0.05) per share	**8,994**	23,270
	52,951	46,326

The final dividend of HKD0.12 (2010: HKD0.02) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounting to approximately RMB50,062,000 (2010: RMB8,994,000).

12. EARNINGS PER SHARE

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

	2011 RMB'000	2010 RMB'000
Earnings for the purposes of basic and diluted earnings per share – profit for the year attributable to the owners of the Company	**135,161**	34,949

	Number of shares	
	2011 '000	2010 '000
Number of shares for the purpose of basic and diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**522,948**	526,675

The computation of diluted earnings per share for the year ended 31 December 2011 have not taken into account (i) the effect of potential shares granted under share option scheme because the exercise price of the share option was higher than the average market price of the shares for the year; and (ii) redeemable convertible preferred shares issued by a subsidiary of the Company since it is anti-dilutive.

The computation of diluted earnings per share for the year ended 31 December 2010 have not taken into account the effect of potential shares granted under share option scheme because the exercise price of the share option was higher than the average market price of the shares for the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Computer and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2010	36,913	23,717	162,170	8,372	7,084	238,256
Exchange adjustments	(1,065)	(16)	(12)	—	—	(1,093)
Additions	—	21,361	7,445	1,442	8,793	39,041
Acquired of assets through acquisition of a subsidiary	—	—	141	—	14,924	15,065
Reclassification	—	22,008	—	—	(22,008)	—
Disposals	—	(117)	(1,032)	(1,525)	—	(2,674)
Transfer to investment property	(10,581)	—	—	—	—	(10,581)
At 31 December 2010	25,267	66,953	168,712	8,289	8,793	278,014
Exchange adjustments	(949)	(23)	(19)	—	—	(991)
Additions	—	6,948	7,998	1,465	84,493	100,904
Reclassification	—	2,272	—	—	(2,272)	—
Disposals	—	(3,352)	(5,393)	(745)	—	(9,490)
At 31 December 2011	24,318	72,798	171,298	9,009	91,014	368,437
DEPRECIATION						
At 1 January 2010	609	7,885	87,930	3,821	—	100,245
Exchange adjustments	(13)	(3)	(9)	—	—	(25)
Provided for the year	920	9,938	38,786	1,803	—	51,447
Eliminated on disposals	—	(53)	(974)	(964)	—	(1,991)
Transfer to investment property	(196)	—	—	—	—	(196)
At 31 December 2010	1,320	17,767	125,733	4,660	—	149,480
Exchange adjustments	(36)	(6)	(15)	—	—	(57)
Provided for the year	749	8,481	25,204	1,489	—	35,923
Eliminated on disposals	—	(3,352)	(5,063)	(613)	—	(9,028)
At 31 December 2011	2,033	22,890	145,859	5,536	—	176,318
CARRYING VALUES						
At 31 December 2011	22,285	49,908	25,439	3,473	91,014	192,119
At 31 December 2010	23,947	49,186	42,979	3,629	8,793	128,534

13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the shorter of the terms of the leases, or 20 years
Leasehold improvements	Over the shorter of the terms of the leases, or 20% - 33.33%
Computer and office equipment	19% - 31.67%
Motor vehicles	19% - 23.75%

An analysis of the carrying values of leasehold land and buildings are as below:

	2011 RMB'000	2010 RMB'000
In Hong Kong		
Long lease	**18,142**	19,557
In the PRC other than in Hong Kong		
Medium-term lease	**4,143**	4,390
	22,285	23,947

14. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
Analysed for reporting purposes as:		
Current assets	**1,784**	1,784
Non-current assets	**86,298**	87,753
	88,082	89,537

The Group´s prepaid lease payments are located in the PRC which are held under medium-term lease.

15. INVESTMENT PROPERTY

	RMB'000
Fair value	
At 1 January 2010	—
Transfer from property, plant and equipment during the year	11,058
Exchange adjustments	(80)
Net increase in fair value recognised	3,573
At 31 December 2010 and 1 January 2011	14,551
Exchange adjustments	(732)
Net increase in fair value recognised	1,990
At 31 December 2011	15,809

The fair values of the Group's investment property, including both land and building elements, at 31 December 2011 have been arrived at on the basis of a valuation carried out on that date by Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group. Asset Appraisal Limited is a member of The Hong Kong Institute of Surveyors. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

The Group's investment property is located in Hong Kong which is held under long lease.

The Group's investment property held under operating leases to earn rentals or for capital appreciation purposes are classified as investment properties and are accounted for using the fair value model.

16. DEPOSIT PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

In 2010, deposit was paid for bidding the land which is located in the PRC. Subsequently, the land has been successful bidded on 27 February 2012 and the Group is in the process of obtaining the land use right certificate.

17. INTANGIBLE ASSETS

	Film rights	Trademark	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2010	5,010	16,348	21,358
Exchange adjustments	—	(602)	(602)
Additions	1,690	5,560	7,250
At 31 December 2010	6,700	21,306	28,006
Exchange adjustments	—	(1,077)	(1,077)
Additions	—	3,088	3,088
At 31 December 2011	6,700	23,317	30,017
AMORTISATION			
At 1 January 2010	974	7,404	8,378
Exchange adjustments	—	(364)	(364)
Provide for the year	1,924	4,932	6,856
At 31 December 2010	2,898	11,972	14,870
Exchange adjustments	—	(736)	(736)
Provide for the year	3,802	7,561	11,363
At 31 December 2011	6,700	18,797	25,497
CARRYING VALUES			
At 31 December 2011	—	4,520	4,520
At 31 December 2010	3,802	9,334	13,136

The Group's film rights and trademark were acquired from third parties. The above film rights and trademark are amortised on a straight-line basis at the following rates per annum:

Film rights	50%
Trademark	17.39% - 50%

18. INTERESTS IN ASSOCIATES

	2011 RMB'000	2010 RMB'000
Unlisted investments outside Hong Kong:		
Cost of investments	13,250	—
Share of post-acquisition losses	(581)	—
	12,669	—

As at 31 December 2011, the Group had interests in the following associates:

Name of entities	Percentage of registered capital directly held by the Group	Country of establishment/ operation	Registered capital	Principal activities
廈門易用軟件技術有限公司（「廈門易用」）(E-Yong Websoft Inc.*) *(Note a)*	50%	PRC	RMB3,000,000	Provision of business management software application development
上海博股信息科技有限公司 (Shanghai Bogu Information Technology Co., Ltd.*) *(Note b)*	35%	PRC	RMB5,000,000	Provision of software for stock information enquires
濟南四葉草信息技術有限公司（「濟南四葉草」）(CloverTek Co., Ltd.*) *(Note a)*	12%	PRC	RMB579,600	Provision of software application development and maintenance
北京九康益電子商務有限公司 (Beijing 9YEE E-Commence Co. Ltd.*) *(Note b)*	40%	PRC	RMB15,000,000	Provision for sales of health food through mobile Internet

* *For identification purpose only*

18. INTERESTS IN ASSOCIATES (Cont'd)

Notes:

a. During the year, the Group has acquired two associates, 廈門易用 and 濟南四葉草 from independent third parties with an aggregated fair value of assets and liabilities attributable to the interests acquired by the Group of approximately RMB1,741,000 at a total consideration of RMB5,500,000. The investment costs of 廈門易用 and 濟南四葉草 included goodwill of approximately RMB1,141,000 and RMB2,618,000, respectively. The Group holds 12% of the equity interests of 濟南四葉草 and have right to appoint one director out of three directors in the board. Therefore, 濟南四葉草 is classified as an associate of the Group.

b. The entities are newly established during the year ended 31 December 2011.

The summarised financial information in respect of the Group's associates is set out below:

	2011	2010
	RMB'000	RMB'000
Assets	**24,467**	—
Liabilities	**(461)**	—
Net assets	**24,006**	—
Group's share of net assets of associates	**8,910**	—
Revenue	**384**	—
Loss for the year	**1,897**	—
Group's share of loss for the year	**581**	—

19. AVAILABLE-FOR-SALE INVESTMENTS

	2011 & 2010
	RMB'000
Unlisted equity securities in the PRC	4,000

The above unlisted equity investments represent 9.5% interest in 福建楊振華851生物科技股份有限公司 (Fujian Yangzhenhua 851 Bio-Engineering Inc.) which was established in the PRC. Mr. Liu Dejian and Mr. Zheng Hui, directors of the Company, are directors of the entity.

The available-for-sale investments are stated at cost less impairment at the end of the reporting period because the directors are of the opinion that its fair value cannot be measured reliably.

20. LOAN RECEIVABLES

	2011	2010
	RMB'000	RMB'000
Fixed-rate loan receivables	**7,405**	6,712
Analysed as:		
Current	**1,091**	893
Non-current	**6,314**	5,819
	7,405	6,712

The effective interest rates (which are equal to contractual interest rates) on the Group's loan receivables are as follows:

	2011	2010
	%	%
Effective interest rate:		
Fixed-rate loan receivables (per annum)	**4.896**	4.896

Loan receivables represent loans to certain key management and senior staff. Loan receivables are not past due or impaired at the end of reporting period. The Group does not hold any collateral over this balance. The loans are either repayable by instalments until 2013 or 2014 or repayable in 2013 or 2014.

21. DEFERRED TAX ASSETS

The following are the deferred tax assets recognised by the Group:

	Development costs
	RMB'000
At 1 January 2010, 31 December 2010 and 31 December 2011	54

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB78,858,000 (2010: RMB54,158,000). No deferred tax liability has been recognised because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The Group also has not recognised deferred tax assets arising from tax losses amounting to approximately RMB192,615,000 (2010: RMB205,731,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. Included in unrecognised tax losses, approximately RMB191,853,000 (2010: RMB204,969,000) will expire in 2015. Other tax losses may be carried forward indefinitely.

22. TRADE RECEIVABLES

In 2011, the Group allows a credit period ranging from 30 to 90 days (2010: 30 days) to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period.

	2011	2010
	RMB'000	RMB'000
0 - 30 days	**22,261**	18,250
31 - 60 days	**5,364**	4,876
61 - 90 days	**6,737**	1,000
Over 90 days	**7,193**	267
Total	**41,555**	24,393

22. TRADE RECEIVABLES (Cont'd)

Before accepting any new customer, the Group uses an internal credit assessment policy to assess the potential customer's credit quality and define credit limits by customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB15,839,000 (2010: RMB6,143,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2011	2010
	RMB'000	RMB'000
31 - 60 days	**3,577**	4,876
61 - 90 days	**5,069**	1,000
Over 90 days	**7,193**	267
Total	**15,839**	6,143

Movement in the allowance for doubtful debts

	2011	2010
	RMB'000	RMB'000
At beginning of year	**311**	295
Allowances recognised on receivables	**179**	16
At end of year	**490**	311

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB490,000 (2010: RMB311,000) of which the debtors have been in dispute with the Group.

23. HELD FOR TRADING INVESTMENTS

	2011 RMB'000	2010 RMB'000
Equity securities listed in the PRC	–	1,079

The fair value of the above investments was based on quoted market bid prices of the listed securities on the Shenzhen Stock Exchange and Shanghai Stock Exchange.

24. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

Name of related company	Terms	Balance at 31 December 2011 RMB'000	Balance at 1 January 2011 RMB'000	Maximum amount outstanding during the year RMB'000
福州天亮網絡技術有限公司 Fuzhou Tianliang Network Company Limited ("Fuzhou Tianliang")	Unsecured, non-interest bearing and repayable on demand	1,200	171	1,200

Note : Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, acting under the instruction of controlling shareholders of the Company.

25. BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and bank deposits carry interest at prevailing banking deposit rates which ranges from 0.001% to 3.50% (2010: 0.001% to 2.25%) per annum.

Included in bank balances and cash are the following amounts denominated in currency other than the functional currency of the respective group entities to which they relate:

	2011	2010
	RMB'000	RMB'000
HKD	**49,983**	35,755
USD	**342,359**	271,549

26. TRADE PAYABLES

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

	2011	2010
	RMB'000	RMB'000
0 - 90 days	**4,641**	508
91 - 180 days	**323**	—
181 - 365 days	**26**	—
Over 365 days	**11**	11
Total	**5,001**	519

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES

91 Limited, a subsidiary of the Company issued 15,384,000 Series A redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD3,999,840 (equivalent to approximately RMB25,839,000) to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investor L.P. and IDG-Accel China Growth Fund L.P. (collectively referred to as "IDG Companies"), group entities of a substantial shareholder of the Company, on 13 August 2011. The subsidiary also issued 16,025,000 Series B redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD20,000,000 (equivalent to approximately RMB126,018,000) to Vertex Asia Growth Ltd., IP Cathay II, L.P. and DT Capital China Growth Fund, L.P. on 15 December 2011 and 30 December 2011. Both Series A and Series B redeemable convertible preferred shares are denominated in United Stated dollars.

Conversion

Both Series A and Series B redeemable convertible preferred shares shall be converted, at the option of the holder thereof, at any time after the issue date of the redeemable convertible preferred shares and the 5th anniversary of the issue date of Series A redeemable convertible preferred shares and 4th anniversary of the issue date of Series B redeemable convertible preferred shares, into ordinary shares of the subsidiary of the Company at the applicable conversion ratio which was initially one ordinary share for each redeemable convertible preferred share. The initial conversion ratio of 1:1 is subject to adjustments, in the event of share splits, share combinations, share dividends or distribution, other dividends, recapitalisation and similar events.

Series A redeemable convertible preferred shares shall be automatically converted into ordinary shares upon the occurrence of a public offering of the shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD150,000,000 and the aggregate net proceeds to the subsidiary of the Company are in excess of USD50,000,000. Series B redeemable convertible peferred shares shall be automatically converted into ordinary shares upon the occurrence of a public offering of the shares of the subsidiary of the Company wherein the pre-offering market capitalisation of the subsidiary of the Company is no less than USD500,000,000 and the aggregate net proceeds to the subsidiary of the Company are in excess of USD150,000,000.

Dividends

The holders of outstanding Series A redeemable convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of any assets at the time legally available therefor, in preference and priority to any declaration or payment of any distribution on ordinary shares in such calendar year. The right to receive dividends on Series A redeemable convertible preferred shares shall not be cumulative, and no right to such dividends shall accrue to holders of redeemable convertible preferred shares by reason of the fact that dividends on said shares are not declared or paid in any calendar year.

The holders of outstanding Series B redeemable convertible preferred shares shall be entitled to receive dividends, when, as and if declared by the board of the subsidiary of the Company, out of any assets at the time legally available therefor, in preference and priority to any declaration or payment of any distribution on Series A redeemable convertible preferred shares and ordinary shares in such calendar year. The right to receive dividends on Series B redeemable convertible preferred shares shall not be cumulative, and no right to such dividends shall accrue to holders of Series B redeemable convertible preferred shares by reason of the fact that dividends on said shares are not declared or paid in any calendar year.

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

Redemption

At any time after the 5th but not later than the 10th anniversary of the date on which the Series A redeemable convertible preferred shares was issued, by a written request signed by holders of at least two-thirds of the Series A redeemable convertible preferred shares, all outstanding Series A redeemable convertible preferred shares shall be redeemed at original issue price per redeemable convertible preferred shares of USD0.26 plus cumulative rate of return of 5% per annum, and any declared but unpaid dividends on such Series A redeemable convertible preferred shares.

At any time after the 4th anniversary of the original issue date of the Series B redeemable convertible preferred shares of a written request signed by holders of more than two-thirds of the Series B redeemable convertible preferred shares, all outstanding Series B redeemable convertible preferred shares shall be redeemed at original issue price per redeemable convertible preferred shares of approximately USD1.248 plus cumulative rate of return of 12% per annum, and any declared but unpaid dividends on such Series B redeemable convertible preferred shares.

Liquidation

The holders of the Series A redeemable convertible preferred shares have preference over holders of ordinary shares with respect to payment of dividends and distribution of assets or surplus funds upon voluntary or involuntary liquidation of the subsidiary of the Company. The holders of the Series A redeemable convertible preferred shares shall be entitled to receive the original issue price of USD0.26 per Series A redeemable convertible preferred share plus 5% per annum cumulative rate of return upon liquidation.

The holders of the Series B redeemable convertible preferred shares have preference over holders of Series A redeemable convertible preferred shares and ordinary shares with respect to payment of dividends and distribution of assets or surplus funds upon voluntary or involuntary liquidation of the subsidiary of the Company. The holders of the Series B redeemable convertible preferred shares shall be entitled to receive the original issue price of approximately USD1.248 per Series B redeemable convertible preferred shares plus 12% per annum cumulative rate of return upon liquidation.

Both Series A and Series B redeemable convertible preferred shares contain two components, liability component and conversion option derivative. The effective interest rate of the liability component of the Series A and Series B redeemable convertible preferred shares is 16.834% per annum. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

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

	Liability component RMB'000	Conversion option and other derivatives RMB'000
At initial recognition	129,435	22,422
Exchange realignment	(257)	(282)
Interest charge	2,497	—
Loss arising on changes of fair value	—	17,792
	131,675	39,932

The fair value of each underlying share of 91 Limited is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 18.97%, 18.84%, 18.45% and 18.45% were used as at 13 August 2011, 15 December 2011, 30 December 2011 and 31 December 2011, respectively.

The assumptions adopted for the valuation of the conversion option derivative component of the redeemable convertible preferred shares using Binomial option pricing model as of 13 August 2011, 15 December 2011, 30 December 2011 and 31 December 2011 were as follows:

Series A redeemable convertible preferred shares

	13 August 2011	31 December 2011
Risk-free interest rate (i)	1.04%	0.81%
Expected volatility (ii)	51.06%	71.83%

Series B redeemable convertible preferred shares

	15 December 2011	30 December 2011	31 December 2011
Risk-free interest rate (i)	0.64%	0.62%	0.62%
Expected volatility (ii)	72.87%	72.17%	72.17%

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

Notes

(i) risk-free interest rate was used by reference to the United States Treasury Bond Rate at the valuation date.

(ii) expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of the comparable companies.

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

28. AMOUNTS DUE TO A SHAREHOLDER/RELATED COMPANIES

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

29. PROMISSORY NOTES

On 21 September 2011, 91 Limited, a subsidiary of the Company (See Note 27) has issued the promissory notes with a total principal amount of USD5,000,000 (equivalent to approximately RMB31,774,000) to IDG Companies to enhance the working capital and strengthen the capital base and financial position of 91 Limited's subsidiaries, which are engaged in mobile Internet business and for further investments by 91 Limited. The promissory notes bear no interest and become due and payable at the option of the note holders at any time on and after 20 March 2012 (the "Maturity Date"). The promissory notes bear interest of 8% per annum for the period from the date immediately after the Maturity Date and until the time the promissory notes are fully repaid. Subsequent to the end of reporting period, all the promissory notes were converted into 4,006,250 shares of series B redeemable convertible preferred shares at conversion price of approximately USD1.248 per Series B redeemable convertible preferred shares on 20 February 2012.

The holders of promissory notes have the option to convert the entire principal amount of the promissory notes into such number of redeemable convertible preferred shares of the subsidiary of the Company by dividing the entire principal amount of the promissory notes by the applicable conversion price as determined at the time of conversion. The terms and conditions of the redeemable convertible preferred shares are to be determined at the time of conversion upon mutually agreed by the subsidiary of the Company and note holders.

29. PROMISSORY NOTES (Cont'd)

The valuation of the promissory notes as of 21 September 2011 was determined using Binomial option pricing model based on the present value of the cash flow projections using financial budgets approved by the management covering a 5-year period, and at a discount rate of 15.64% with reference to valuation report carried out by an independent qualified professional valuer, Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group. The fair value of the promissory notes on 21 September 2011 is approximately USD4,652,000 (equivalent to approximately RMB29,565,000) and the difference of approximately USD348,000 (equivalent to approximately RMB2,209,000) between the carrying amount and the principal amount of the promissory notes at the initial recognition was recognised as deemed contribution from a substantial shareholder.

The conversion option of the promissory notes is insignificant as at 21 September 2011 and 31 December 2011.

30. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2010, 31 December 2010 and 31 December 2011	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2010 and 31 December 2010	528,570,860	5,285,709	39,264
Repurchase and cancellation of shares *(Note)*	(13,971,000)	(139,710)	(1,038)
At 31 December 2011	514,599,860	5,145,999	38,226

Note:

For the year ended 31 December 2011, the Company repurchased 13,971,000 of its own shares through the purchase on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount to acquire the shares was approximately RMB45,397,000.

31. 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.

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 23,651,900 (31 December 2010: 6,800,000), representing 4.60% (31 December 2010: 1.29%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Options granted must be taken up within 28 days from the date of the offer, upon payment of a nominal consideration of HKD1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

Details of specific categories of options are as follows:

Batch 1:

Date of grant	Vesting period	Exercise period	No. of share option at 31 December 2011
7 December 2009	N/A	7 December 2009 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2010	7 December 2010 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2011	7 December 2011 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2012	7 December 2012 - 6 December 2019	1,360,000
7 December 2009	7 December 2009 - 6 December 2013	7 December 2013 - 6 December 2019	1,360,000
			6,800,000

Batch 2:

Date of grant	Vesting period	Exercise period	No. of share option at 31 December 2011
28 April 2011	28 April 2011 - 27 April 2012	28 April 2012 - 27 April 2021	1,038,890
28 April 2011	28 April 2011 - 27 April 2013	28 April 2013 - 27 April 2021	2,027,085
28 April 2011	28 April 2011 - 27 April 2014	28 April 2014 - 27 April 2021	2,702,780
28 April 2011	28 April 2011 - 27 April 2015	28 April 2015 - 27 April 2021	3,378,475
28 April 2011	28 April 2011 - 27 April 2016	28 April 2016 - 27 April 2021	4,054,170
			13,201,400

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

Batch 3:

Date of grant	Vesting period	Exercise period	No. of share option at 31 December 2011
22 July 2011	22 July 2011 - 27 April 2012	28 April 2012 - 27 April 2021	382,600
22 July 2011	22 July 2011 - 21 July 2012	22 July 2012 - 21 July 2021	221,250
22 July 2011	22 July 2011 - 27 April 2013	28 April 2013 - 27 April 2021	470,400
22 July 2011	22 July 2011 - 21 July 2013	22 July 2013 - 21 July 2021	331,875
22 July 2011	22 July 2011 - 27 April 2014	28 April 2014 - 27 April 2021	827,200
22 July 2011	22 July 2011 - 21 July 2014	22 July 2014 - 21 July 2021	529,200
22 July 2011	22 July 2011 - 27 April 2015	28 April 2015 - 27 April 2021	284,000
22 July 2011	22 July 2011 - 21 July 2015	22 July 2015 - 21 July 2021	119,625
22 July 2011	22 July 2011 - 27 April 2016	28 April 2016 - 27 April 2021	340,800
22 July 2011	22 July 2011 - 21 July 2016	22 July 2016 - 21 July 2021	143,550
			3,650,500

The following table discloses the movement of the share options during the year ended 31 December 2011:

Option batch	Exercise price HKD	Outstanding at 1 January 2011	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31 December 2011
Batch 1	4.33	6,800,000	–	–	–	6,800,000
Batch 2	4.80	–	13,513,900	–	312,500	13,201,400
Batch 3	4.60	–	3,681,500	–	31,000	3,650,500
		6,800,000	17,195,400	–	343,500	23,651,900
Exercisable at the end of the year 2011						4,080,000
Weighted average exercise price		HKD4.33				HKD4.63

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

The following table discloses the movement of the share options during the year ended 31 December 2010:

Option batch	Exercise price HKD	Outstanding at 1 January 2010	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31 December 2010
Batch 1	4.33	6,800,000	—	—	—	6,800,000
Exercisable at the end of the year 2010						2,720,000

No share options were exercised during the year 2011 and 2010. The number of share options outstanding at 31 December 2011 was 23,651,900.

The options granted on 28 April 2011 and 22 July 2011 with estimated fair value of the options granted on those dates were approximately RMB23,288,000 and RMB5,739,000, respectively. These fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Batch 2:

Closing price of the Company's shares on grant date	HKD4.8
Exercise price	HKD4.8
Risk-free interest rate	2.39%
Expected option life	8 years
Expected volatility	43.07%
Expected dividend yield	1.46%

Batch 3:

Closing price of the Company's shares on grant date	HKD4.6
Exercise price	HKD4.6
Risk-free interest rate	1.96%
Expected option life	8 years
Expected volatility	43.23%
Expected dividend yield	1.52%

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

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

Expected volatility was determined by using the historical volatility of the Company's share price over 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non- transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of approximately RMB9,903,000 for the year ended 31 December 2011 (2010: RMB5,697,000) in relation to share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair values of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

(ii) Share award scheme

Pursuant to a circular to shareholders of the Company dated 3 September 2008, the Company introduced a share award scheme (the "Share Award Scheme"), whereby eligible participants are conferred rights by the Company to be issued or transferred fully-paid ordinary shares in the capital of the Company (hereinafter referred to as the "Award").

The rationale of the Share Award Scheme is to recognise the contributions by certain employees and to provide incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The selected employee are not required to pay for the grant of the Award or for the shares allotted or allocated pursuant to the Award.

The aggregate number of the Awards is not permitted to exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The eligibility of employees to participate in the Share Award Scheme and number of shares which are the subject of each Award at each date of grant to a selected employee in accordance with the Share Award Scheme shall be determined at the absolute discretion of the committee, which comprised the directors of the Company duly appointed by the board of directors to administer the Share Award Scheme (the "Committee"), which shall take into consideration various factors including the general financial condition of the Group, the rank and performance of the relevant employee and such other general criteria as the Committee may consider appropriate as well as other limitations set forth under the Rules Governing the Listing of Securities on the Stock Exchange and those rules of the Share Award Scheme.

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme (Cont'd)

In determining the number of shares to be awarded each year the Committee shall have reference to the financial performance of the Group as reflected in the profit before taxation of the financial year.

The grant of the Award to the selected employee shall be accepted by the selected employee within 28 days from the date of offer. The selected employee may accept or refuse the whole but not part of a grant of the Award. If the grant of the Award is not accepted by the selected employee within 28 days from the date of offer, the offer shall upon the expiry of the 28 days period automatically lapse and shall be null and void.

Performance conditions (the "Performance Conditions") refers to the condition or conditions imposed by the Company on the selected employee's employment with the Company which must be fulfilled or satisfied by the selected employee prior to his eligibility for the Award. Performance period refers to the period of a participant employment with the Group which is used to assess the selected employee's work performance for the purpose of determining the grant of the selected employee's award.

The current Performance Condition proposed by the Committee is that shares will only be vested to the employees each year in consideration of their completed services rendered for that year. Each employee needs to render the full year service in order to entitle the shares vested in each year.

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB182,000 for the year ended 31 December 2011 (2010: RMB571,000) in relation to share award.

Movements in the share awards granted during the year ended 31 December 2011 are as follows:

Name of category of participant	Date of grant	Outstanding as at 1 January 2011	Aggregate Awards vested and released during the year	Outstanding as at 31 December 2011
Other employees	15 October 2008	308,742	(229,065)	79,677

31. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

(ii) Share award scheme (Cont'd)

Among the Award granted on 15 October 2008, 376,832 share awards vested on 6 November 2008, 376,832 share awards vested on 6 November 2009, 524,594 share awards vested on 6 November 2010, 229,065 share awards vested on 6 November 2011 and the remaining 79,677 share awards vest on 6 November 2012. The Award are normally released to the selected employees within one month after the vesting date.

The following table discloses movement of Company's share award held by employees and directors during prior year:

Name of category of participant	Date of grant	Outstanding as at 1 January 2010	Aggregate Awards vested and released during the year	Outstanding as at 31 December 2010
Independent non-executive directors:				
Mr. Chao Guowei, Charles	15 October 2008	98,509	(98,509)	—
Mr. Lee Kwan Hung	15 October 2008	98,509	(98,509)	—
Mr. Liu Sai Keung, Thomas	15 October 2008	98,509	(98,509)	—
Other employees	15 October 2008	537,809	(229,067)	308,742
		833,336	(524,594)	308,742

32. ACQUISITION OF ASSETS

In April 2010, the Group had acquired prepaid lease payments and other assets and liabilities held by Fujian TianDi Animation Technologies Co. Ltd. (福建天棣動漫科技有限公司) ("Fujian TianDi") through the acquisition of Fujian TianDi's entire registered capital. The transaction was completed on 21 June 2010.

Assets and liabilities recognised at the date of acquisition

	RMB'000
Non-current assets	
Property, plant and equipment	15,065
Prepaid lease payments	42,380
Current assets	
Other receivables	307
Prepaid lease payments	677
Held for trading investments	15
Bank balances and cash	9,555
Current liabilities	
Other payables	(295)
Net asset value	67,704

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	67,704
Less: cash and cash equivalent balances acquired	(9,555)
	58,149

33. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 RMB'000	2010 RMB'000
Assets and liabilities		
Investments in subsidiaries	**167,871**	167,871
Other receivables and prepayment	**339**	159
Amounts due from subsidiaries	**929,674**	807,534
Bank balances and cash	**92,633**	207,217
Other payables	**(19,657)**	(1,622)
Amounts due to subsidiaries	**(1,894)**	(1,894)
	1,168,966	1,179,265
Capital and reserves		
Share capital	**38,226**	39,264
Share premium and reserves	**1,130,740**	1,140,001
	1,168,966	1,179,265

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital and the risks associated with the issued share capital. The Group will balance its overall capital structure through the payment of dividends as well as issue new shares or return capital to shareholders and issue of redeemable covertible preferred shares and promissory notes.

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,529,626**	1,272,850
Held for trading investments	**—**	1,079
Available-for-sale investments	**4,000**	4,000
Financial liabilities		
Amortised cost	**277,490**	58,737
Conversion option derivative liability	**39,932**	—

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held for trading investments, amount due from a related company, loan receivables, trade receivables, other receivables, bank deposits, bank balances and cash, trade payables, other payables and accruals, amounts due to related companies, amount due to a shareholder, promissory notes, redeemable convertible preferred shares and conversion option derivative liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

35. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

(i) Currency risk

The Group operates mainly in the PRC. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB. However, the Group also has operations in Hong Kong and the USA and the business transactions conducted there during the year 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.

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities (including trade receivables, other receivables, prepayments and deposits, bank balances and cash, trade payables, other payables and accruals, promissory notes and redeemable convertible preferred shares) at the end of the reporting period are as follows:

	Assets		Liabilities	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**72,296**	58,068	**30,352**	12,430
USD	**342,426**	271,615	**203,440**	1,271

35. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) *Currency risk (Cont'd)*

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD or USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number below indicates a decrease in profit for the year where RMB strengthen 5% against relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year and the amounts below would be positive.

	2011	2010
	RMB'000	RMB'000
Profit for the year		
HKD	**(1,573)**	(1,905)
USD	**(5,212)**	(11,286)

A 5% increase and decrease in RMB against HKD or USD do not have a material impact on the other comprehensive income of the Group.

35. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(ii) Interest rate risk

The interest income is derived from the Group's bank deposits that carry interest at the respective banking deposit rate of the banks located in PRC and loan receivables.

The Group is exposed to fair value interest rate risk in relation to loan receivables (set out in note 20). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The cash flow interest rate risk relates primary to the Group's bank deposits (set out in note 25) carried at prevailing banking deposit rates. The Group's bank deposits are short-term in nature and the exposure of the interest rate risk for bank deposits are considered minimal and no sensitivity to interest rate risk is presented.

Other price risk

The Group is required to estimate the fair value of the conversion option derivative in the redeemable convertible preferred shares at the end of the reporting period with changes in fair value to be recognised in profit or loss as long as the redeemable convertible preferred shares are outstanding. The fair value will be affected either positively or negatively, amongst others, by the changes in risk-free interest rate and the expected volatility.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to the expected volatility of the subsidiary's comparable companies at the reporting date only as the directors of the Company consider that the change in risk-free interest rate may not have significant financial impact on the fair value of conversion option.

If the expected volatility had been 5% higher/lower and all other variables were held constant, the carrying amount of the conversion option derivative would increase by approximately RMB41,876,000/decrease by approximately RMB38,076,000 (2010: Nil).

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of redeemable convertible preferred shares involves multiple variables and certain variables are interdependent.

35. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties provided 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.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturity for its non-derivative and derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

35. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2011					
Trade payables	—	5,001	—	5,001	5,001
Other payables and accruals	—	109,226	—	109,226	109,226
Amounts due to related companies	—	965	—	965	965
Promissory notes	15.64	31,505	—	31,505	30,623
Redeemable convertible preferred shares	16.834	—	244,746	244,746	131,675
Conversion option derivative liability	—	—	39,932	39,932	39,932
		146,697	284,678	431,375	317,422

	Weighted average interest rate %	On demand or less than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2010					
Trade payables	—	519	—	519	519
Other payables and accruals	—	58,218	—	58,218	58,218
		58,737	—	58,737	58,737

35. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Fair value

The fair value of financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

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

Financial instruments that are measured subsequent to initial recognition at fair value, are grouped in to Levels 1 to 3 based on the degree to which the fair value 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 assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- 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).

At the end of the reporting period, level 3 financial liability included conversion option derivative component of redeemable convertible preferred shares. During the year, the loss arising from changes in fair value recognised in profit or loss amounting to approximately RMB17,792,000 (2010: Nil). Details of reconciliation from the beginning balance to the ending balance of level 3 fair value measurements of financial liability regarding conversion option derivative component of redeemable convertible preferred shares are set out in note 27.

36. RETIREMENT AND BENEFITS PLANS

Defined contribution plan

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or HKD1,000 per person per month to the scheme, whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2011 made by the Group amounted to approximately RMB19,608,000 (2010: RMB17,575,000).

37. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by the controlling shareholders, Messrs. Liu Dejian, Liu Luyuan and Zheng Hui, who have entered into 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 year with certain companies in which some directors and shareholders of the Company can exercise significant influence.

Name of/and relationship with related parties

Name of related parties	**Relationship**
Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc.("Fuzhou 851")	DJM Holding Ltd., the immediate holding company, and Mr. Liu Dejian, executive director and beneficial owner of the Company, together have 86.16% equity interest in this entity

37. RELATED PARTY TRANSACTIONS (Cont'd)

Nature of transactions

	2011 RMB'000	2010 RMB'000
Rentals charges by Fuzhou 851	**6,000**	6,000
Service fee at recreation centre paid to Fuzhou 851	**2,544**	2,544
After-sales service fee paid to Fuzhou Tianliang	**12,199**	10,393
Technical service fee paid to Fuzhou Tianliang	**2,438**	2,227
Interest received on loan advanced to key management	**71**	34

During the year ended 31 December 2011, a subsidiary of the Company has issued USD5,000,000 promissory notes (equivalent to approximately RMB31,774,000) and USD3,999,840 (equivalent to approximately RMB25,839,000) redeemable convertible preferred shares of the subsidiary of the Company to IDG Companies.

In addition, included in loan receivables at 31 December 2011 were loans advanced to key management of approximately RMB1,700,000 (31 December 2010: RMB700,000). The loans carry fixed interest at 4.896% per annum of which RMB700,000 is repayable in 2013 and RMB1,000,000 is repayable in 2014.

Compensation of key management personnel

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

	2011 RMB'000	2010 RMB'000
Salaries, allowances and other short-term employee benefits	**6,401**	5,825
Contribution to retirement benefits schemes	**93**	93
Share-based payments expense	**2,888**	4,534
	9,382	10,452

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

38. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2011 RMB'000	2010 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**134,289**	149,072

39. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**7,963**	13,283
In the second to fifth year inclusive	**4,024**	8,321
Over five years	**12,024**	14,041
	24,011	35,645

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 5 years for office premises. Rentals are fixed over the respective leases.

39. OPERATING LEASE COMMITMENTS (Cont'd)

The Group as lessor

Property rental income earned during the year was approximately RMB303,000 (2010: RMB97,000). The property is expected to generate rental yields of 2.1% on an ongoing basis. The property held has committed tenants for the next 2 years.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2011 RMB'000	2010 RMB'000
Within one year	188	311
In the second to fifth year inclusive	–	197
	188	508

40. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2011 and 2010 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/ registered capital	Proportion of registered capital /issued share capital/equity interests and voting power held by the Company directly %		indirectly %		Principal activities
			2011	2010	2011	2010	
NetDragon Websoft Inc.	BVI	USD222,203.93	100	100	–	–	Investment holding
NetDragon (Fujian)*	PRC	RMB10,000,000.00	–	–	–	–	Operation of online games
TQ Digital #	PRC	RMB345,000,000.00	–	–	100	100	Development of online games and licensing and servicing of the developed games
NetDragon (Shanghai) *	PRC	RMB1,000,000.00	–	–	–	–	Provision of support services to the Group

40. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/ registered capital	Proportion of registered capital /issued share capital/equity interests and voting power held by the Company directly %		indirectly %		Principal activities
			2011	2010	**2011**	2010	
NetDragon Websoft Inc.	USA	USD600,000.00	**–**	–	**100**	100	Provision of support services to the Group
NetDragon Websoft (Hong Kong) Limited (網龍香港有限公司)	Hong Kong	HKD1.00	**–**	–	**100**	100	Licensing and servicing of the developed games and provision for support services to the Group
Glory More Limited (展凱有限公司)	Hong Kong	HKD1.00	**–**	–	**100**	100	Investment holding
TQ Online #	PRC	RMB50,000,000.00	**–**	–	**100**	100	Development of online games and licensing and servicing of developed games
福州網龍天像科技有限公司 # (Fuzhou NetDragon TianXiang Technology Inc.)	PRC	RMB50,000,000.00	**–**	–	**100**	100	Investment holding
91 Limited	Cayman Islands	USD8,076.60	**–**	–	**100**	–	Investment holding
Fuzhou BoYuan Wireless Websoft Technology Limited # ("Fuzhou BoYuan")	PRC	RMB33,000,000.00	**–**	–	**100**	–	Provision of consulting services
Fujian Bo Rui*	PRC	RMB10,000,000.00	**–**	–	**–**	–	Operation of mobile Internet business

40. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

* The Group's control over, and beneficial interest in the equity of, these entities exist by virtue of certain contractual arrangements entered into with the Ultimate Controlling Shareholders involving these entities, which are established as limited liability companies under PRC law. The Group does not hold ownership interest in the registered capital of these subsidiaries. However, under the contractual agreements entered into among the entities, the Ultimate Controlling Shareholders who are the owners of the registered capital of these entities and the Group, the Group controls these entities by way of controlling all voting rights in owners' meetings of these entities and governing their financial and operating policies. Under the contractual arrangements, management committees are established to oversee the businesses and operations of these entities in order to ensure and facilitate the implementation of the contractual arrangements. The management committees shall comprise of members, all of whom have to be directors of TQ Digital and Fuzhou BoYuan, group entities of the Company, in order that the decision-making rights and the operating and financing activities of these entities are ultimately controlled by the Company. The Company is also entitled to substantially all of the operating profits and residual benefits by charging service fee equal to net profit generated by these entities under the contractual arrangements. In addition, the owners of the registered capital of these entities have irrecoverably authorised TQ Digital and Fuzhou BoYuan to exercise all their voting rights in NetDragon (Fujian) and Fujian Bo Rui, including the appointment and removal of the directors of these entities. As a result, these entities are regarded as subsidiaries under the control of the Group. Accordingly, the results of these entities, if any, and their assets and liabilities are included in the consolidated financial statements.

\# Wholly foreign owned enterprise.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.