

2013

INTERIM 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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MANAGEMENT DISCUSSION AND ANALYSIS

(1) OPERATION INFORMATION

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

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

Note: As at 30 June 2013, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online, Dungeon Keeper™ Online and other games.

The PCU for online games was approximately 468,000 for the three months ended 30 June 2013, representing an increase of approximately 5.2% from the three months ended 31 March 2013 and representing a decrease of approximately 19.6% from the three months ended 30 June 2012.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL PERFORMANCE HIGHLIGHTS

SIX MONTHS ENDED 30 JUNE 2013

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Revenue

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

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

Online game

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

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

	Six months ended 30 June			
	2013		2012	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	381,229	87.4	339,108	86.4
Overseas	54,924	12.6	53,465	13.6
	436,153	100.0	392,573	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 six months ended 30 June 2013 was approximately RMB381.2 million, representing an increase of approximately 12.4% over the six months ended 30 June 2012.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Revenue (Cont'd)

Mobile Internet business

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

Second Quarter of 2013

Revenue

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

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

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

Cost of revenue

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

Other income and gains

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

Selling and marketing expenses

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

Administrative expenses

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

MANAGEMENT DISCUSSION AND ANALYSIS

(2) FINANCIAL PERFORMANCE HIGHLIGHTS (Cont'd)

Second Quarter of 2013 (Cont'd)

Development costs

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

Other expenses

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

Operating profit

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

Net (loss) gain on derivative financial instruments

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

Finance costs

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

Profit for the period

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

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the second quarter of 2013 was approximately RMB124.6 million, representing an increase of approximately 11.5% from the first quarter of 2013 and an increase of approximately 176.7% over the same period in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW

Second Quarter of 2013 Compared to First Quarter of 2013

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Revenue

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

Online game

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)**Revenue (Cont'd)***Mobile Internet business*

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

Cost of revenue

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

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

Gross profit

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

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

Other income and gains

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

Selling and marketing expenses

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Administrative expenses

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

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

Development costs

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

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

Other expenses

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)**Operating profit**

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

Net (loss) gain on derivative financial instruments

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

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

Finance costs

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

Taxation

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

Profit for the period attributable to the owners of the Company

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Second Quarter of 2013 Compared to Second Quarter of 2012

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Revenue

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

Online game

Our online game revenue for the three months ended 30 June 2013 was approximately RMB224.2 million, representing an increase of approximately 11.5% as compared to approximately RMB201.0 million for the three months ended 30 June 2012.

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

	Three months ended 30 June			
	2013		2012	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	198,315	88.5	175,083	87.1
Overseas	25,844	11.5	25,909	12.9
	224,159	100.0	200,992	100.0

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)**Revenue (Cont'd)***Mobile Internet business*

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

Cost of revenue

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

Gross profit

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

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

Other income and gains

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

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 June 2013 increased by approximately 5.5% to approximately RMB39.1 million as compared with the three months ended 30 June 2012. The increase in selling and marketing expenses was mainly due to offset of (i) the decrease in advertising expenses for Dungeon Keeper™ Online and Absolute Force Online; (ii) the decrease in promotion activities for Eudemons Online; (iii) the increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development; and (iv) the increase in share-based payments expense for the grant of share awards and share options as incentives in order to retain certain eligible participants for the contribution of the continuing operation and development of the Group.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)**Administrative expenses**

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

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

Development costs

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

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

Other expenses

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

Operating profit

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

MANAGEMENT DISCUSSION AND ANALYSIS

(3) FINANCIAL REVIEW (Cont'd)

Net loss on derivative financial instruments

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

Finance costs

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

Taxation

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

Profit for the period attributable to the owners of the Company

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

(4) NON-GAAP FINANCIAL MEASURES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW

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

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

Development and licensing of existing games

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

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

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

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

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

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

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW (Cont'd)

Development and licensing of existing games (Cont'd)

In respect of the self-operated games, the Group has launched the expansion pack "Return of the Archer"* (弓手翻身) for Conquer Online* (征服) in English, French, Spanish and Arabian versions. The Group expected the provision of additional in-game items and premium features will bolster the popularity of its online games.

The Group has entered into other overseas markets through close cooperation with local major operators. The Group has licensed its own in-house developed online games in various countries and regions, including Hong Kong, Malaysia, Macau, Taiwan, Brazil and Vietnam, to a larger user base. The Group has launched the expansion pack "Edge of Night"* (吸血聖戰) for Eudemons Online (魔域) in Portuguese in May 2013.

Games in the pipeline

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

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

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

Mobile Internet Business

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

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

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

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW (Cont'd)**Mobile Internet Business (Cont'd)**

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

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

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

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

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW (Cont'd)

Mobile Internet Business (Cont'd)

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW (Cont'd)**Mobile Internet Business (Cont'd)**

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

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

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

Enhancement of R&D capabilities

The intense competition in the online game and mobile Internet application industries has driven the Group to focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 30 June 2013, the Group's overall staff headcount was 3,175, of which 1,775 were members of the development team. After more than a decade of talent cultivation, the development team of the Group has gathered expertise in programming, design and graphics, which will support its fast development of the R&D, online and mobile game updates and software and application upgrades to accommodate the needs of the new players and satisfy the emerging market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW (Cont'd)

Corporate Milestones and Awards for the First Half of 2013

Year 2013	Corporate Milestones/Recognitions	Product Milestones/Awards
January	<ul style="list-style-type: none"> Fujian NetDragon Websoft Co., Ltd. 「福建網龍網絡信息技術有限公司」 ("NetDragon (Fujian)") was honoured as "2012 Top 10 Chinese Branded Game Enterprises for Top 10 Games"* 「遊戲十強之2012年度中國十大品牌遊戲企業稱號」 by the Publishers Association of China* 「中國出版協會」 NetDragon (Fujian) was awarded "Fuzhou Famous Trademark Plaque"* 「福州市知名商標牌匾」 by Administration for Industry and Commerce of Fuzhou* 「福州市工商行政管理局」 and Fuzhou Trademark Association* 「福州市商標協會」 Fujian TQ Digital Inc. 「福建天晴數碼有限公司」 ("TQ Digital") was honoured as "2012 Top 10 Chinese Overseas Development Game Enterprises for Top 10 Games"* 「遊戲十強之2012年度中國十大海外拓展遊戲企業稱號」 by the Publishers Association of China* 「中國出版協會」 	

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW (Cont'd)

Corporate Milestones and Awards for the First Half of 2013 (Cont'd)

Year 2013	Corporate Milestones/Recognitions	Product Milestones/Awards
February	<ul style="list-style-type: none"> TQ Digital was honoured as "Top 50 Most Dynamic Service Trade Enterprises"* 「最具活力服務貿易企業50強稱號」 by International Business Daily* 「國際商報社」 NetDragon (Fujian) was honoured as "Top 10 Cultural Enterprises in Fujian Province"* 「福建省文化企業十強稱號」 by the Fujian Province Cultural Reform and Development Work Leading Group* 「福建省文化改革發展工作領導小組」 	
March	<ul style="list-style-type: none"> NetDragon (Fujian) was awarded the "Chinese Animation and Game Industry - 2012 Outstanding Entrepreneur Award"* 「中國動漫遊戲行業2012年度優秀企業獎」 by China Game Industry Annual Conference* 「中國遊戲行業年會」 	<ul style="list-style-type: none"> Eduemons Online 「魔域」 was awarded the "2012 Chinese Animation and Game Industry Goldfinger Award"* 「2012年度中國動漫遊戲行業金手指獎」 by China Game Industry Annual Conference* 「中國遊戲行業年會」 "Age of Egmont"* 「獵龍戰記」 (previously named as Age of Emblem* 「紋章物語」) was awarded the "2012 Chinese Animation and Game Industry Goldfinger Award"* 「2012年度中國動漫遊戲行業金手指獎」 by China Game Industry Annual Conference* 「中國遊戲行業年會」

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

(5) BUSINESS REVIEW (Cont'd)

Corporate Milestones and Awards for the First Half of 2013 (Cont'd)**Year 2013 Corporate Milestones/Recognitions**

June

Product Milestones/Awards

- "91 Assistant"* 「91助手」(previously named as "91 PC Suite" 「91手機助手」) was awarded the "2012-2013 Global Outstanding Mobile Terminals and Mobile Applications Annual Award Contest "International Goldfinger Award" Most Comprehensive Application Platform Award"* 「2012-2013全球優秀移動終端與移動應用年度評選大賽"國際金指尖獎"最全面應用平台獎」 by "iiMedia Research Group"* 「艾媒諮詢集團」

(6) LIQUIDITY AND CAPITAL RESOURCES

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(7) FOREIGN CURRENCY RISKS

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

(8) CREDIT RISKS

As at 30 June 2013, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(9) STAFF INFORMATION

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(10) PERFORMANCE EVALUATION

Human resources

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

1. The Company improved employment qualifications management and completed the revision of "Administration Measures for Staff Promotion" and the "Senior Management Leadership Assessment Project") during the period under review, which were successively put into use, so as to better support staff training and selection and effectively inspire staff and lead the growth of staff, thus helping the Group to better achieve its strategic objectives and create value.
2. On the basis of continuously driving the "Golden Handshake Plan" and project incentive, the Company continued to improve the existing remuneration system to enhance its competitiveness in the remuneration market. The Company participated in the Mercer Fresh Graduate Remuneration Survey and the Towers Watson Mobile Game Remuneration Survey and provided data support to some extent for the Group's overall remuneration survey and salary structure adjustment in 2013.
3. The Company completed the selection and reward work of the appraisal for 2012, which effectively inspired the Group's benchmark figures and projects. The Company also summarized and optimized the appraisal standards and process in a timely manner to reinforce the appraisal principle of "Fair, Justice, Open", which provided strong support for the promotion of the Group's values to some extent.

(11) STAFF TRAINING

Staff training

NetDragon University's profile: NetDragon University is the Group's base for training management and technical talents. Providing substantial support to and forming a significant part of the overall strategy of the Group, NetDragon University is dedicated to providing professional and systematic staff training and has fostered a large number of high-level technical and management talents through effective organizational learning to continuously increase the Group's core competitiveness.

Results achieved for the first half of 2013

In 2013, the Company broke through the business model which previously focused on course training and drove new businesses with certification as the carrier - the implementation of the promotion of corporate culture and strengthening management training, technical training and development training in the original training operation.

Up to present, the Company conducted a total of more than 100 training sessions and approximately 10 certification sessions for employees of the Company, with almost 2,000 participants in total.

MANAGEMENT DISCUSSION AND ANALYSIS

(11) STAFF TRAINING (Cont'd)

"Certification"

In the first half year, the Company mainly introduced examination certification projects that focused on things that should be known and done, such as: security technology certification examination, interactive design guide examination, new GDA examination and other projects. Classmates in the Group may participate in examination certification according to the principle of voluntary enrollment.

"Course training"

In respect of application of advanced management, the Company further developed an effective management training programme system based on the introduced "task analysis" approach to create premium training courses. The Company implemented the Basic Talent Nurture Programme 3.0 this year. While the individual needs of various departments were met, analyses were made by combining with the characteristics of tasks undertaken by staff. A customized premium training programme system helped improve the quality and standard of management staff.

In respect of technological training, by carrying on the Group's concept of transforming into a "company focusing on design", NetDragon University officially kicked off the "Design Elite Practical Training Camp", one of the training projects newly introduced in June this year. It took two months for this project to focus on task analysis for the post of "product planner". The finalized training plan focused on practical training, supplemented by classroom training.

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

The E-learning learning platform continued to improve its function so as to enhance user experience. Through further promoting the application of the E-learning learning platform, increasing the number of online courses and supporting the Group's training, a good online self-learning atmosphere was gradually developed within the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

(11) STAFF TRAINING (Cont'd)

“Culture promotion”

In respect of promoting the establishment of the new corporate culture, the Company helped its staff understand and experience culture and consolidate their awareness of culture through designing culture promotion systems to create various forms of activities and training such as theme activities, internal propaganda and training certification.

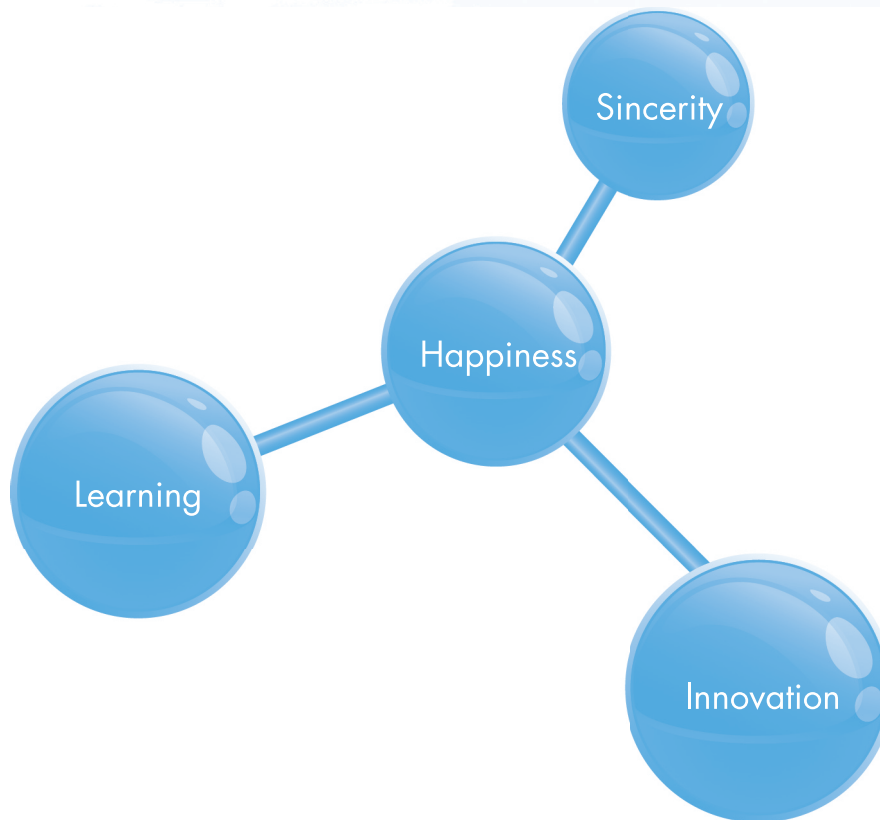
Expected results for the second half of 2013

In 2013, the NetDragon University will facilitate the commencement of the new certification programme to satisfy the strategic needs of the Company and is planning to start certifications for 5 positions and technologies including new staff certification and management training certification. Under the business system centering on certification, more refined and in-depth management training, skills training and development training will be offered. The Company will change to a human-oriented approach, which will address more training needs of the middle and basic level management staff and refine the management nurturing skills, to establish a customized and highly efficient management system by combining specific needs of various departments. Technological training will mainly focus on design training courses to improve the quality of training and promote the development of the Company’s design talents. Experience training will be further developed from the original programme, large-scale development activities similar to orientation activities will be organized to facilitate in-depth exchange and collaboration among team members. The E-Learning online learning platform will continue to improve its function, in order to further enhance the online learning atmosphere and effectiveness, and to improve the operational efficiency of training.

MANAGEMENT DISCUSSION AND ANALYSIS

(12) CORPORATE CULTURE

The DNA of the Group'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", the Group 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 the Group's corporate culture and cultural DNA of everyone in the Group.

Happiness

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

MANAGEMENT DISCUSSION AND ANALYSIS

(12) CORPORATE CULTURE (Cont'd)

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 working here follows the rule of uniqueness
- everyone in the Group 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

(13) PROSPECTS AND OUTLOOK

Looking forward, the Group plans to further enhance its game development capabilities and to train talented R&D personnel. Apart from developing new online games to expand its product lines, the Group will continue to update the content for its online games and provide diversified online game versions to extend the lifespan of existing products, such that the Group's revenue base can be maximized.

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

For online games, the Group will continue to invest in the development of new MMORPGs, which are creative and considered to have market potential, so as to extend its product lines for retaining current players and attracting attention from more players of various levels. In addition to the MMORPGs, the Group will continue to research and develop various types of games to satisfy players with different demands in the market.

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

MANAGEMENT DISCUSSION AND ANALYSIS

(13) PROSPECTS AND OUTLOOK (Cont'd)

Conclusion

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

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

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

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

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

The Merger Agreement

Pursuant to the terms and subject to the conditions of the Merger Agreement, Merger Sub will merge with and into 91 Wireless (the "**Merger**") at the time on which the Merger becomes effective as set out in the plan of merger as appended in the Merger Agreement in accordance with the Companies Law of the Cayman Islands (the "**Effective Time**"), with 91 Wireless surviving the Merger and becoming a wholly owned subsidiary of Baidu HK as a result of the Merger. The consideration for the Merger is USD1,847.94 million (equivalent to approximately HK\$14,336.09 million).

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

MANAGEMENT DISCUSSION AND ANALYSIS

(13) PROSPECTS AND OUTLOOK (Cont'd)

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

ND Deed of Undertaking

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

Deed of Undertaking of the Other 91 Shareholders

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

Baidu Undertaking

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(13) PROSPECTS AND OUTLOOK (Cont'd)

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

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

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

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

- I. "Phase 1 of Haixi Animation Creativity City". It is the land occupied by the Group for exchange in research and development, and quality development. Currently it has been constructed into a training base for the Group, which is comprised of several main buildings such as the Group's office building and Pentagonal Building* (五角大樓).
- II. "Phase 2 of Haixi Animation Creativity City". It is the Group's core animation research center, of which the Heavenly Building* (天晴樓), a landmark building, was completed in August 2011 and other buildings are under tight construction. Currently, Phase 2 has entered a critical stage. Water and electricity installment, landscaping in the park are speeding up and the logistical ancillary facilities such as the staff quarter will be put into use once the decoration is completed.
- III. "Phase 3 of Haixi Animation Creativity City". It is the project for animation application in game terminals (the "AI Project") serving as the Group's research and development centre for mobile intelligent terminals, which is emerging but promising. Currently, the Group is processing the land supply procedure.

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

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

* For identification only

MANAGEMENT DISCUSSION AND ANALYSIS

(13) PROSPECTS AND OUTLOOK (Cont'd)**Other Events**

The Group has started the talent optimization project since 2009 and its objectives are to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of the staff. The Group has successfully enhanced the mobility of staff and maintained the growth momentum. This project has also lowered total labour costs as shown in the results and further stimulated staff morale and sense of responsibility.

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

(14) INTERIM DIVIDEND

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

(15) CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 9 September 2013 to Wednesday, 11 September 2013, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2013, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 6 September 2013.

OTHER INFORMATION

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

As at 30 June 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
Liu Dejian <i>(Note 2)</i>	The Company	Beneficial owner and through a controlled corporation	249,770,033(L)	49.16%
Liu Dejian <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Dejian <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan <i>(Note 2)</i>	The Company	Beneficial owner and through a controlled corporation	249,570,033(L)	49.12%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui <i>(Note 2)</i>	The Company	Beneficial owner and through controlled corporations	248,099,033(L)	48.83%
Zheng Hui <i>(Note 3)</i>	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Zheng Hui <i>(Note 3)</i>	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan <i>(Note 4)</i>	The Company	Beneficial owner and through a controlled corporation	13,190,019(L)	2.59%
Chao Guowei, Charles <i>(Note 5)</i>	The Company	Beneficial owner	997,019(L)	0.19%
Lee Kwan Hung <i>(Note 5)</i>	The Company	Beneficial owner	897,019(L)	0.17%
Liu Sai Keung, Thomas <i>(Note 5)</i>	The Company	Beneficial owner	917,019(L)	0.18%

Notes:

1. The letter "L" denotes the shareholder's long position in the shares, underlying shares and share capital of the relevant member of the Group.
2. Liu Dejian is interested in 95.36% of the issued share capital of DJM Holding Ltd., which in turn is interested in 36.62% of the issued share capital of the Company.

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

Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 36.62% and 3.74%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 2.90% of the issued share capital of the Company.

Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 48.45% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc. On 7 December 2009, the Company awarded 1,600,000 share options and 1,400,000 share options of the Company to Liu Dejian and Liu Luyuan, respectively. On 22 July 2011, the Company granted 284,000 share options to each of Liu Dejian, Liu Luyuan and Zheng Hui.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"), which in turn is interested in 99.00% of the registered capital of Shanghai Tiankun Digital Technology Limited* (上海天坤數碼科技有限公司) ("NetDragon (Shanghai)"). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).
4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.18% of the issued share capital of the Company. Chen Hongzhan had been awarded 1,600,000 share options of the Company on 7 December 2009 and granted 284,000 share options of the Company on 22 July 2011. Chen Hongzhan is deemed to be interested in 2.18% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited and his direct beneficial interest in the issued share capital of the Company.
5. On 22 July 2011, the Company granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sui Keung, Thomas. On 23 April 2012, the Company again granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.

* For identification purpose only

OTHER INFORMATION

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

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

So far as is known to the Directors, as at 30 June 2013, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Name of Group member	Capacity and nature of interests	Number of ordinary shares held or amount of registered capital contributed <i>(Note 1)</i>	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	36.62%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%
IDG Group <i>(Note 2)</i>	The Company	Beneficial owner	78,333,320(L)	15.39%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through controlled corporations	78,333,320(L)	15.39%
Zhou Quan <i>(Note 2)</i>	The Company	Through controlled corporations	73,490,095(L)	14.44%
Richmedia Holdings Limited <i>(Note 3)</i>	The Company	Beneficial owner	26,344,800(L)	5.18%
IDG Investors <i>(Note 4)</i>	91 Wireless	Beneficial owner	14,582,750(L)	10.39%
NetDragon (BVI)	91 Wireless	Beneficial owner	80,571,528(L)	57.41%

Notes:

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

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 June 2013.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

OTHER INFORMATION

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the "Main Board Share Option Scheme") to replace the existing share option scheme. Details of the share options outstanding and movement during the period ended 30 June 2013 are as follows:

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

Notes:

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

SHARE AWARD SCHEME

The Company

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

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

As at 30 June 2013, 1,269,603 awarded shares granted to a number of selected participants were outstanding. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

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

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

OTHER INFORMATION

91 Wireless

On 28 December 2011, 91 Wireless adopted a share award scheme (the "91 Share Award Scheme") in which selected participants of 91 Wireless and/or its subsidiaries are entitled to participate. Subject to early termination by the board of directors of 91 Wireless, the 91 Share Award Scheme shall be valid and effective for a term of ten years commencing on 28 December 2011. The maximum number of shares which may be granted to the participants under the 91 Share Award Scheme is 9,615,000 shares or such number of shares as determined by the board of directors of 91 Wireless from time to time.

Pursuant to the rules of the 91 Share Award Scheme, 91 Wireless has signed an agreement with the Trustee, for the purpose of administering the 91 Share Award Scheme and holding the awarded shares before they are vested.

As at 30 June 2013, 9,615,000 awarded shares (among the 2,981,300 shares awarded on 8 February 2012, 117,500 shares were returned shares pursuant to the rules of the 91 Share Award Scheme and re-granted on 31 December 2012) were granted to a number of selected participants. The awarded shares, which were purchased at par value of USD0.0001 per share by the Trustee from Treasure New Limited, an indirect wholly owned subsidiary of the Company, will be transferred to the selected participants at nil consideration. Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) a confirmation from 91 Wireless that all vesting conditions having been fulfilled, the award shares will be transferred to the selected participants at nil consideration upon vesting.

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

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

Best Assistant Education Online Limited (“Best Assistant”)

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

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

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

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

COMPETITION AND CONFLICT OF INTERESTS

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

INTERNAL CONTROLS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has been in compliance with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the period except for the following deviation:

Code provision A.6.7 requires that the independent non-executive Directors and the non-executive Directors should attend the general meeting. However, due to other commitment, the independent non-executive Director, Mr. Chao Guowei, Charles and the non-executive Director, Mr. Lin Dongliang did not attend the annual general meeting of the Company held on 24 May 2013.

OTHER INFORMATION

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

Mr. Lee Kwan Hung has been appointed as an independent non-executive director of Landsea Green Properties Co., Ltd. (formerly known as "Shenzhen High-Tech Holdings Limited") on 31 July 2013.

AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control systems of the Group.

The Audit Committee reviews the quarterly, interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continued connected transactions and connected transactions relating to structure contracts, other contracts and control documents of the Group.

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

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

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

INTERIM REPORT
NETDRAGON WEBSOFT INC.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF NETDRAGON WEBSOFT INC.

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of NetDragon Websoft Inc. (the “Company”) and its subsidiaries set out on pages 47 to 74, which comprise the condensed consolidated statement of financial position as of 30 June 2013, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23 August 2013

INTERIM REPORT
NETDRAGON WEBSOFT INC.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
	NOTES		
Revenue	4	782,841	513,108
Cost of revenue		(87,292)	(70,733)
Gross profit		695,549	442,375
Other income and gains	4	22,403	15,167
Selling and marketing expenses		(74,619)	(70,565)
Administrative expenses		(187,438)	(113,181)
Development costs		(109,948)	(95,950)
Other expenses		(13,776)	(16,707)
Share of losses of associates		(705)	(658)
Share of profit of a joint venture		918	—
Operating profit		332,384	160,481
Interest income on pledged bank deposit		3,821	—
Exchange gain (loss) on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares		3,030	(1,423)
Net gain (loss) on derivative financial instruments		30,345	(23,339)
Finance costs		(14,232)	(9,048)
Profit before taxation		355,348	126,671
Taxation	6	(84,678)	(25,812)
Profit for the period	7	270,670	100,859
Other comprehensive (expense) income: Item that may be reclassified subsequently to profit or loss: Exchange differences arising on translation of foreign operations		(625)	72
Total comprehensive income for the period		270,045	100,931
Profit for the period attributable to:			
– Owners of the Company		236,401	100,803
– Non-controlling interests		34,269	56
		270,670	100,859
Total comprehensive income attributable to:			
– Owners of the Company		235,776	100,875
– Non-controlling interests		34,269	56
		270,045	100,931
		RMB cents	RMB cents
Earnings per share	9		
– Basic		46.84	19.65
– Diluted		41.12	19.61

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	<i>NOTES</i>	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	423,296	345,415
Prepaid lease payments	11	185,989	139,678
Investment property	11	15,931	16,217
Intangible assets		1,769	2,626
Interests in associates	12	1,926	11,793
Interest in a joint venture	13	18,933	18,015
Available-for-sale investments		5,000	5,000
Loan receivables		9,652	9,969
Goodwill		12,534	12,534
Deferred tax assets		4,436	1,586
		679,466	562,833
Current assets			
Prepaid lease payments		2,902	2,902
Loan receivables		2,590	3,143
Trade receivables	14	84,516	61,427
Other receivables, prepayments and deposits		107,779	72,101
Held for trading investments		-	4,939
Amounts due from related companies	15	3,598	3,637
Amount due from a joint venture	15	1,288	3,060
Pledged bank deposit	17	-	194,405
Bank deposits		425,713	394,081
Bank balances and cash		1,409,797	1,142,825
		2,038,183	1,882,520

INTERIM REPORT
NETDRAGON WEBSOFT INC.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	NOTES	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Current liabilities			
Trade and other payables	16	298,364	222,137
Deferred income		27,960	24,778
Amounts due to related companies	15	525	121
Amount due to an associate	18	-	5,600
Secured bank borrowing	17	-	183,595
Other financial liability	19	-	10,679
Income tax payable		74,693	66,355
		401,542	513,265
Net current assets			
		1,636,641	1,369,255
Total assets less current liabilities			
		2,316,107	1,932,088
Non-current liabilities			
Redeemable convertible preferred shares	20	-	195,115
Conversion option derivative liability	20	-	314,829
Deferred tax liabilities		17,959	6,141
		17,959	516,085
Net assets			
		2,298,148	1,416,003
Capital and reserves			
Share capital		37,761	37,532
Share premium and reserves		1,942,066	1,356,317
Equity attributable to owners of the Company		1,979,827	1,393,849
Non-controlling interests		318,321	22,154
		2,298,148	1,416,003

The condensed consolidated financial statements on pages 47 to 74 were approved and authorised for issue by the Board of Directors on 23 August 2013 and are signed on its behalf by:

Director

Director

INTERIM REPORT

NETDRAGON WEBSOFT INC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company														
	Share capital	Share premium	Capital redemption reserve	Other reserve	Capital reserve	Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based compensation reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	38,226	1,113,005	3,001	2,209	9,946	140,883	50,062	673	(7,552)	19,054	(58,115)	187,960	1,499,352	(458)	1,498,894
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	100,803	100,803	56	100,859
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	72	-	72	-	72
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	72	100,803	100,875	56	100,931
Issue of shares by a subsidiary	-	-	-	-	99	-	-	-	-	-	-	-	99	1	100
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	5,782	-	-	5,782	-	5,782
Recognition of equity-settled share-based payments granted by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	5,664	5,664
Partial disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	132	132
Final dividend for 2011 paid	-	-	-	-	-	-	(50,062)	-	-	-	-	-	(50,062)	-	(50,062)
Interim dividend for 2012	-	-	-	-	-	-	62,927	-	-	-	-	(62,927)	-	-	-
At 30 June 2012 (unaudited)	38,226	1,113,005	3,001	2,209	10,045	140,883	62,927	673	(7,552)	24,836	(58,043)	225,836	1,556,046	5,395	1,561,441
At 1 January 2013	37,532	1,069,844	3,717	2,209	10,045	172,895	81,947	673	(7,225)	30,986	(58,179)	49,405	1,393,849	22,154	1,416,003
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	236,401	236,401	34,269	270,670
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	-	-	(625)	-	(625)	-	(625)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	-	(625)	236,401	235,776	34,269	270,045
Shares issued upon exercise of share options	229	20,284	-	-	-	-	-	-	-	(6,738)	-	-	13,775	-	13,775
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	-	-	10,504	-	-	10,504	-	10,504
Recognition of equity-settled share-based payments granted by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	69,294	69,294
Conversion of redeemable convertible preferred shares	-	-	-	408,261	-	-	-	-	-	-	-	-	408,261	188,614	596,875
Contributions from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	3,990	3,990
Awarded shares vested to employees	-	-	-	-	-	-	-	-	1,445	(2,846)	-	1,401	-	-	-
Final dividend for 2012 paid	-	-	-	-	-	-	(81,947)	-	-	-	-	(391)	(82,338)	-	(82,338)
Interim dividend for 2013	-	-	-	-	-	-	81,090	-	-	-	-	(81,090)	-	-	-
At 30 June 2013 (unaudited)	37,761	1,090,128	3,717	410,470	10,045	172,895	81,090	673	(5,780)	31,906	(58,804)	205,726	1,979,827	318,321	2,298,148

INTERIM REPORT
NETDRAGON WEBSOFT INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

HKFRS 11 Joint Arrangement

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

5. SEGMENT INFORMATION

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

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

Six months ended 30 June 2013

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

5. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2012

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

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

The accounting policies of the operating segment are the same as the Group's accounting policies. Segment profit or loss represents the profit earned by or loss from each segment whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, share of losses of associates, share of profit of a joint venture, impairment loss recognised in respect of interests in associates, net (loss) gain on other derivative financial instruments, income tax expenses and unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

5. SEGMENT INFORMATION (Cont'd)

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

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Online game	1,566,899	1,750,584
Mobile Internet business	962,910	420,259
Total segment assets	2,529,809	2,170,843
Unallocated	187,840	274,510
	2,717,649	2,445,353

6. TAXATION

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

Staff costs:

Directors' emoluments

Other staff costs

Salaries and other benefits

Contributions to retirement benefits schemes

Share-based payments expense

Amortisation of intangible assets (included in cost of revenue)

Amortisation of intangible assets (included in other expenses)

Release of prepaid lease payments (included in administrative expenses)

Depreciation of property, plant and equipment

Operating lease rentals in respect of:

– rented premises

– computer equipment

Net foreign exchange loss

Write off of intangible assets (included in other expenses)

Impairment loss recognised in respect of interests in associates

(included in other expenses)

Loss (gain) on disposal of property, plant and equipment

Six months ended 30 June

2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
11,212	2,816
154,607	133,479
22,282	10,811
70,011	10,018
258,112	157,124
817	1,225
–	1,368
729	729
23,491	12,949
7,626	8,465
35,453	27,431
7,029	1,559
–	2,036
2,704	–
234	(1)

8. DIVIDENDS

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

9. EARNINGS PER SHARE

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

10. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent approximately RMB101,945,000 (2012: RMB43,840,000) for the acquisition of property, plant and equipment to expand its operations which mainly included RMB24,056,000 (2012: RMB7,245,000) in office and computer equipment and RMB72,593,000 (2012: RMB35,632,000) in construction in progress. The Group has no material disposal of property, plant and equipment in both periods.

11. PREPAID LEASE PAYMENTS/INVESTMENT PROPERTY

During the period ended 30 June 2013, the Group disposed the prepaid lease payment of approximately RMB11,760,000 with the same amount of consideration and spent approximately RMB58,800,000 (2012: RMB55,901,000) for the acquisition of prepaid lease payment to expand its office buildings located in Fuzhou. Among the RMB55,901,000 addition of prepaid lease payments during the period ended 30 June 2012, RMB19,050,000 was paid in 2011 and recorded as deposit paid for acquisition of property, plant and equipment as at 31 December 2011, RMB9,472,000 was paid during the period ended 30 June 2012 and RMB27,379,000 was included in other payables and accruals as at 30 June 2012. The Group is in the process of obtaining the land use right certificate.

The Group's investment property as at 30 June 2013 were fair valued by Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group, who has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions. No significant changes in fair value between 30 June 2013 and 31 December 2012 (No significant changes in fair value between 30 June 2012 and 31 December 2011).

12. INTERESTS IN ASSOCIATES

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Unlisted investments outside Hong Kong:		
Cost of investments <i>(Note)</i>	8,230	13,830
Share of post-acquisition losses	(2,742)	(2,037)
Impairment loss recognised	(2,704)	—
Contribution to a subsidiary of the Group	(858)	—
	1,926	11,793
Group's share of net assets of associates	1,642	8,034

Note: During the six months ended 30 June 2013, one of the associates, 北京九康益電子商務有限公司, has reduced its registered capital. The equity percentage held by the Group for this associate remain unchange after reduction of the registered capital.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

13. INTEREST IN A JOINT VENTURE

Unlisted investments outside Hong Kong:

Cost of investments

Share of post-acquisition losses

Group's share of net assets of a joint venture

30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
19,406	19,406
(473)	(1,391)
18,933	18,015
18,933	18,015

14. TRADE RECEIVABLES

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

0 - 30 days

31 - 60 days

61 - 90 days

Over 90 days

Total

30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
44,586	38,519
14,334	12,753
13,870	4,252
11,726	5,903
84,516	61,427

15. AMOUNTS DUE FROM (TO) RELATED COMPANIES/A JOINT VENTURE

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

16. TRADE AND OTHER PAYABLES

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

17. PLEDGED BANK DEPOSIT/SECURED BANK BORROWING

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

18. AMOUNT DUE TO AN ASSOCIATE

The amount was unsecured, non-interest bearing and was fully repaid during the period ended 30 June 2013.

19. OTHER FINANCIAL LIABILITY

Derivative not under hedge accounting

On 12 June 2012, the Group entered into foreign currency forward contracts with a bank for a period of 1 year in relation to the pledged bank deposit and bank borrowing arrangement as mentioned in note 17.

As at 31 December 2012, the major terms of foreign currency forward contracts for sale of EURO were as follows:

Notional amount	Maturity	Exchange rate
Sell EURO24,426,000	13 June 2013	EURO1: HKD9.7

On 13 June 2013, the foreign currency forward contract was matured and the net loss of approximately RMB2,359,000 was recognised in the profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

20. REDEEMABLE CONVERTIBLE PREFERRED SHARES

91 Wireless Websoft Limited (formerly known as "91 Limited"), a subsidiary of the Company, issued 15,384,000 series A redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD3,999,840 to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investor L.P. and IDG-Accel China Growth Fund L.P. (collectively referred to as "IDG Companies"), group entities of a substantial shareholder of the Company, on 13 August 2011. The subsidiary also issued 16,025,000 series B redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD20,000,000 (equivalent to approximately RMB126,018,000) to Vertex Asia Growth Ltd., IP Cathay II, L.P. and DT Capital. China Growth Fund, L.P. on 15 December 2011 and 30 December 2011. On 21 February 2012, the promissory notes issued by the subsidiary of the Company have been converted into 4,006,250 series B redeemable convertible preferred shares. On 12 October 2012, the subsidiary also issued 1,602,500 series B redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD2,000,000 (equivalent to approximately RMB13,395,000) to Sino Coast Developments Limited. On 10 January 2013, the subsidiary has further issued 5,813,902 series B redeemable convertible preferred shares, 601,438 series B redeemable convertible preferred shares and 601,438 series B redeemable convertible preferred shares of par value of USD0.0001 each to independent third parties, Pacific Century Diversified Limited, Grandwin Enterprises Limited and an individual investor at an aggregate issue price of USD17,500,000 (equivalent to approximately RMB109,888,000). Both series A and series B redeemable convertible preferred shares are denominated in United States dollars. The principal activities of 91 Wireless Websoft Limited together with its subsidiaries are engaged in mobile Internet business.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

20. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

20. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

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

Series A redeemable convertible preferred shares

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

Series B redeemable convertible preferred shares

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

Notes:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

21. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

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

The fair value of the options granted on that date was approximately RMB2,562,000. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD10.98
Exercise price	HKD11.16
Risk-free interest rate	0.627-0.704%
Expected option life	7.7-8.7 years
Expected volatility	45.64%
Expected dividend yield	2.46%

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

(ii) Share award scheme by the Company

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

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

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

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

Pursuant to the announcement of the Company dated 28 December 2011, the subsidiary of the Company, 91 Wireless Websoft Limited, introduced a share award scheme (the "91 Share Award Scheme"), whereby eligible participants are conferred rights by 91 Wireless Websoft Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Wireless Websoft Limited (hereinafter referred to as the "91 Award").

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

(iii) Share award scheme by a subsidiary of the Company (Cont'd)

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

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

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

(iv) Shares awarded by a subsidiary of the Company

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

Fair value of the shares awarded at the award date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the award date. The fair value of the shares awarded on 9 January 2013 was approximately RMB70,165,000.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

22. RELATED PARTY TRANSACTIONS

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

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

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 one of the controlling shareholders of the Company, together have 100% equity interest in this entity
福州天亮網絡技術有限公司 ("Fuzhou Tianliang")	Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, acting under the instruction of controlling shareholders of the Company
廈門易用軟件技術有限公司 ("E-Yong Websoft")	An associate which the Group holds 42.9% equity interest in this entity

Nature of transactions

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Rental charges by Fuzhou 851	3,408	2,504
Service fee at recreation centre paid to Fuzhou 851	3,250	5,005
After-sales service fee paid to Fuzhou Tianliang	8,172	7,910
Technical service fee paid to Fuzhou Tianliang	1,242	1,166
Interest received on loan advanced to key management of the Group	(39)	(17)
Technical service fee received from Jiangsu BoDe	(2,840)	—
Server rental income received from Jiangsu BoDe	(466)	—

During the period ended 30 June 2012, the promissory notes issued to IDG Companies were converted into 4,006,250 shares of series B redeemable convertible preferred shares at conversion price of approximately USD1.248 per share.

During the period ended 30 June 2013, an associate, E-Yong Websoft, has subscribed for 2,000,000 new ordinary shares of the subsidiary, 福州暢裕網路科技有限公司, at a cash consideration of RMB2,000,000.

Included in loan receivables at 30 June 2013 were loans advanced to certain key management of approximately RMB2,300,000 (31 December 2012: RMB2,400,000). The loans carry fixed interest at the rate from 4.48% to 6.65% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

22. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	2,056	4,302
Contribution to retirement benefits schemes	39	47
Share-based payments expense	20,362	1,022
	22,457	5,371

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

23. CAPITAL COMMITMENTS

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

	30 June	31 December
	2013	2012
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	124,654	124,438

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

24. EVENTS AFTER THE REPORTING PERIOD

Proposed disposal of 91 Wireless Websoft Limited

On 15 July 2013, a direct wholly owned subsidiary of the Company, NetDragon Websoft Inc., a limited liability company incorporated in the British Virgin Islands ("NetDragon BVI"), entered into the legally binding Memorandum of Understanding with an independent third party in relation to the proposed disposal of its entire equity interest in 91 Wireless Websoft Limited, representing approximately 57.41% of the total issued share capital of 91 Wireless Websoft Limited, at consideration of USD1.09 billion (equivalent to approximately RMB6,664 million).

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

Under the Agreement, the Group shall be entitled to receive an aggregate consideration of USD1.09 billion (equivalent to approximately RMB6,664 million) before a special dividend of USD29.89 million (equivalent to approximately RMB183 million). The net consideration after declaration of special dividend should be USD1.06 billion (equivalent to approximately RMB6,481 million) for the disposal of the Group's entire equity interest in 91 Wireless Websoft Limited, representing 57.41% equity interest of 91 Wireless Websoft Limited held by the Group at 14 August 2013.

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

Repurchase of shares

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