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NetDragon Websoft Inc.

網龍網絡有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 777)

**THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS AND NINE MONTHS ENDED
30 SEPTEMBER 2012**

The board (the “Board”) of directors (the “Director(s)”) of NetDragon Websoft Inc. (the “Company”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2012. The third quarterly results of the Group have been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditor (the “Auditor”) of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and reviewed by the audit committee (the “Audit Committee”) of the Company, comprising of three independent non-executive Directors.

RESULTS

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months and nine months ended 30 September 2012 together with the comparative figures in 2011 as follows:

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Revenue	4	290,144	202,739	777,303	543,798
Cost of revenue		<u>(37,358)</u>	<u>(18,043)</u>	<u>(82,142)</u>	<u>(46,695)</u>
Gross profit		252,786	184,696	695,161	497,103
Other income and gains	4	17,322	5,303	32,489	20,787
Selling and marketing expenses		(37,388)	(34,310)	(107,953)	(94,063)
Administrative expenses		(51,564)	(56,373)	(164,745)	(151,839)
Development costs		(46,231)	(36,280)	(142,181)	(111,882)
Other expenses		(7,604)	(3,894)	(24,312)	(6,547)
Share of losses of associates		(363)	(65)	(1,021)	(142)
Operating profit		126,958	59,077	287,438	153,417
Interest income on pledged bank deposit		2,600	—	2,600	—
Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares		6,234	427	4,811	427
Net loss on derivative financial instruments		(15,474)	(210)	(38,813)	(210)
Finance costs		(6,821)	(316)	(15,869)	(316)
Profit before taxation		113,497	58,978	240,167	153,318
Taxation	6	<u>(18,212)</u>	<u>(9,124)</u>	<u>(44,024)</u>	<u>(25,822)</u>
Profit for the period	7	95,285	49,854	196,143	127,496
Other comprehensive income (expense)					
Exchange differences arising on translation of foreign operations		<u>59</u>	<u>(734)</u>	<u>131</u>	<u>(1,281)</u>
Total comprehensive income for the period		<u>95,344</u>	<u>49,120</u>	<u>196,274</u>	<u>126,215</u>
Profit for the period attributable to					
- Owners of the Company		95,399	49,771	196,201	127,300
- Non-controlling interests		<u>(114)</u>	<u>83</u>	<u>(58)</u>	<u>196</u>
		<u>95,285</u>	<u>49,854</u>	<u>196,143</u>	<u>127,496</u>
Total comprehensive income attributable to					
- Owners of the Company		95,458	49,037	196,332	126,019
- Non-controlling interests		<u>(114)</u>	<u>83</u>	<u>(58)</u>	<u>196</u>
		<u>95,344</u>	<u>49,120</u>	<u>196,274</u>	<u>126,215</u>
		<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share	9				
- Basic		18.95	9.48	38.49	24.20
- Diluted		<u>18.87</u>	<u>9.48</u>	<u>38.25</u>	<u>24.20</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2012**

		30 September 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment	10	261,116	192,119
Prepaid lease payments	11	140,042	86,298
Investment property	11	16,111	15,809
Deposit paid for acquisition of property, plant and equipment		—	19,050
Intangible assets		4,000	4,520
Interests in associates	12	12,148	12,669
Long-term deposit	13	3,600	—
Available-for-sale investments		5,000	4,000
Loan receivables		8,893	6,314
Deferred tax assets		54	54
		<u>450,964</u>	<u>340,833</u>
Current assets			
Prepaid lease payments		2,902	1,784
Loan receivables		3,894	1,091
Trade receivables	14	81,469	41,555
Other receivables, prepayments and deposits		46,484	41,429
Held-for-trading investment		5,000	—
Amounts due from related companies		2,499	1,200
Pledged bank deposit	16	191,387	—
Bank deposits		173,358	40,000
Bank balances and cash		<u>1,271,289</u>	<u>1,428,928</u>
		<u>1,778,282</u>	<u>1,555,987</u>

		30 September 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
	<i>NOTES</i>		
Current liabilities			
Trade payables	15	31,154	5,001
Other payables and accruals		108,955	121,353
Deferred income		32,881	25,528
Amount due to a related company		—	965
Secured bank loan	16	185,174	—
Other financial liability	17	6,183	—
Promissory notes	18	—	30,623
Income tax payable		<u>42,724</u>	<u>42,849</u>
		<u>407,071</u>	<u>226,319</u>
Net current assets		<u>1,371,211</u>	<u>1,329,668</u>
Total assets less current liabilities		<u>1,822,175</u>	<u>1,670,501</u>
Non-current liabilities			
Redeemable convertible preferred shares	19	174,979	131,675
Conversion option derivative liability	19	<u>75,135</u>	<u>39,932</u>
		<u>250,114</u>	<u>171,607</u>
Net assets		<u>1,572,061</u>	<u>1,498,894</u>
Capital and reserves			
Share capital		37,511	38,226
Share premium and reserves		<u>1,508,763</u>	<u>1,461,126</u>
Equity attributable to owners of the Company		1,546,274	1,499,352
Non-controlling interests		<u>25,787</u>	<u>(458)</u>
		<u>1,572,061</u>	<u>1,498,894</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

	Attributable to owners of the Company														
	Share capital	Capital			Statutory reserves	Dividend reserve	Revaluation reserve	Treasury share reserve	Employee share-based		Retained profits	Total	Non-controlling interests	Total equity	
		Share premium	redemption reserve	Other reserve					compensation reserve	Translation reserve					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2011	39,264	1,157,364	1,963	—	9,946	121,339	8,994	673	(8,494)	9,539	(56,663)	167,772	1,451,697	(540)	1,451,157
Profit for the period	—	—	—	—	—	—	—	—	—	—	—	127,300	127,300	196	127,496
Exchange differences arising on translation of foreign operations	—	—	—	—	—	—	—	—	—	—	(1,281)	—	(1,281)	—	(1,281)
Other comprehensive expenses for the period	—	—	—	—	—	—	—	—	—	—	(1,281)	—	(1,281)	—	(1,281)
Total comprehensive (expenses) income for the period	—	—	—	—	—	—	—	—	—	—	(1,281)	127,300	126,019	196	126,215
Deemed contribution from a substantial shareholder	—	—	—	2,209	—	—	—	—	—	—	—	—	2,209	—	2,209
Repurchase and cancellation of shares	(238)	(12,122)	238	—	—	—	—	—	—	—	—	(238)	(12,360)	—	(12,360)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	6,487	—	—	6,487	—	6,487
Final dividend for 2010 paid	—	—	—	—	—	—	(8,994)	—	—	—	—	—	(8,994)	—	(8,994)
Interim dividend for 2011 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(43,957)	(43,957)	—	(43,957)
At 30 September 2011 (unaudited)	<u>39,026</u>	<u>1,145,242</u>	<u>2,201</u>	<u>2,209</u>	<u>9,946</u>	<u>121,339</u>	<u>—</u>	<u>673</u>	<u>(8,494)</u>	<u>16,026</u>	<u>(57,944)</u>	<u>250,877</u>	<u>1,521,101</u>	<u>(344)</u>	<u>1,520,757</u>
At 1 January 2012	38,226	1,113,005	3,001	2,209	9,946	140,883	50,062	673	(7,552)	19,054	(58,115)	187,960	1,499,352	(458)	1,498,894
Profit for the period	—	—	—	—	—	—	—	—	—	—	—	196,201	196,201	(58)	196,143
Exchange differences arising on translation of foreign operations	—	—	—	—	—	—	—	—	—	—	131	—	131	—	131
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	131	—	131	—	131
Total comprehensive income (expenses) for the period	—	—	—	—	—	—	—	—	—	—	131	196,201	196,332	(58)	196,274
Issue of shares by subsidiaries	—	—	—	—	99	—	—	—	—	—	—	—	99	18,643	18,742
Repurchase and cancellation of shares	(716)	(45,057)	716	—	—	—	—	—	—	—	—	(716)	(45,773)	—	(45,773)
Share issued upon exercise of share options	1	88	—	—	—	—	—	—	—	(27)	—	—	62	—	62
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	9,191	—	—	9,191	—	9,191
Recognition of equity-settled share-based payments granted by a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	7,528	7,528
Partial disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	—	132	132
Final dividend for 2011 paid	—	—	—	—	—	—	(50,062)	—	—	—	—	—	(50,062)	—	(50,062)
Interim dividend for 2012 declared and paid	—	—	—	—	—	—	—	—	—	—	—	(62,927)	(62,927)	—	(62,927)
At 30 September 2012 (unaudited)	<u>37,511</u>	<u>1,068,036</u>	<u>3,717</u>	<u>2,209</u>	<u>10,045</u>	<u>140,883</u>	<u>—</u>	<u>673</u>	<u>(7,552)</u>	<u>28,218</u>	<u>(57,984)</u>	<u>320,518</u>	<u>1,546,274</u>	<u>25,787</u>	<u>1,572,061</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012**

	Nine months ended	
	30 September	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH FROM OPERATING ACTIVITIES	<u>238,114</u>	<u>186,234</u>
INVESTING ACTIVITIES:		
Acquisitions of interests in associates	(500)	(7,250)
Purchase of property, plant and equipment	(87,267)	(64,200)
Purchase of prepaid lease payments	(36,908)	—
Placement of bank deposits	(183,358)	(30,000)
Placement of pledged bank deposit	(191,387)	—
Withdrawal of bank deposits	50,000	340,828
Other investing cash flows	<u>7,010</u>	<u>(12,945)</u>
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(442,410)</u>	<u>226,433</u>
FINANCING ACTIVITIES:		
Dividends paid	(112,989)	(52,951)
Payment for repurchase of shares	(45,773)	(12,360)
Proceeds from issue of redeemable convertible preferred shares	—	25,839
Proceeds from issue of promissory notes	—	31,774
Proceeds from issue of shares by a subsidiary to non-controlling shareholders	18,643	—
New bank loan raised	185,174	—
Other financing activities	<u>356</u>	<u>—</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>45,411</u>	<u>(7,698)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(158,885)	404,969
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,428,928	877,823
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>1,246</u>	<u>98</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u><u>1,271,289</u></u>	<u><u>1,282,890</u></u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012**

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, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

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

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

2. BASIS OF PREPARATION

The amounts included in the condensed consolidated financial statements have been computed in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) applicable to interim periods. However, it does not contain sufficient information to constitute a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the HKICPA.

3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the nine months ended 30 September 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

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

4. REVENUE, OTHER INCOME AND GAINS

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue				
Online game revenue	204,067	183,533	596,640	509,052
Mobile Internet business revenue (Note)	86,077	19,206	180,663	34,746
	<u>290,144</u>	<u>202,739</u>	<u>777,303</u>	<u>543,798</u>
Other income and gains				
Business tax refunded	—	—	1,080	—
Gain on fair value changes of investment property	163	406	163	2,003
Government grants	130	172	489	4,543
Interest income arising from loan receivables, bank balances and non-pledged bank deposit	14,507	2,447	26,958	9,766
Net gain on held-for-trading investments	—	965	—	1,255
Rental income, net of negligible outgoing expenses	116	74	318	228
Others	2,406	1,239	3,481	2,992
	<u>17,322</u>	<u>5,303</u>	<u>32,489</u>	<u>20,787</u>

Note: During the three months ended 30 September 2012, the directors have revisited the terms of certain contracts entered into by the Group with cooperation partners in respect of game and application revenue generated in 2012 from mobile Internet business. 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 Internet platforms. The directors believe that the Group is acting as an agent and such revenue should be recognised on a net basis, instead of gross basis, as reported in previous quarters. Among the revenue from mobile internet business of RMB180,663,000 for the nine-month period ended 30 September 2012, RMB84,674,000 has been recorded on a net basis, comprising gross amount of RMB142,795,000 net of cooperation fee paid and payable to the cooperation partners of RMB58,121,000 (2011: Nil). Such revenue amount include revenue of RMB43,484,000 in respect of the six months ended 30 June 2012, which was reported in the previous interim financial report on gross basis with gross amount of RMB69,433,000 previously reported as revenue, and expense of RMB25,949,000, in the interim condensed consolidated financial statements for the six months ended 30 June 2012. The directors believe that such change in presentation of revenue is more reliable and relevant to the financial performance of the Group and reflects the economic substance of the transactions.

5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

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

Three months ended 30 September 2012

	Online game <i>(Unaudited)</i> <i>RMB’000</i>	Mobile Internet business <i>(Unaudited)</i> <i>RMB’000</i>	Total <i>(Unaudited)</i> <i>RMB’000</i>
Segment revenue	<u>204,067</u>	<u>86,077</u>	<u>290,144</u>
Segment profit	<u>86,780</u>	<u>28,022</u>	114,802
Unallocated income and gains			26,156
Unallocated expenses			(27,098)
Share of losses of associates			<u>(363)</u>
Profit before taxation			<u>113,497</u>

Nine months ended 30 September 2012

	Online game <i>(Unaudited)</i> <i>RMB’000</i>	Mobile Internet business <i>(Unaudited)</i> <i>RMB’000</i>	Total <i>(Unaudited)</i> <i>RMB’000</i>
Segment revenue	<u>596,640</u>	<u>180,663</u>	<u>777,303</u>
Segment profit	<u>265,330</u>	<u>8,550</u>	273,880
Unallocated income and gains			39,411
Unallocated expenses			(72,103)
Share of losses of associates			<u>(1,021)</u>
Profit before taxation			<u>240,167</u>

Three months ended 30 September 2011

	Online game (Unaudited) RMB'000	Mobile Internet business (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	<u>183,533</u>	<u>19,206</u>	<u>202,739</u>
Segment profit	<u>66,101</u>	<u>153</u>	66,254
Unallocated income and gains			5,131
Unallocated expenses			(12,342)
Share of losses of associates			<u>(65)</u>
Profit before taxation			<u>58,978</u>

Nine months ended 30 September 2011

	Online game (Unaudited) RMB'000	Mobile Internet business (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue	<u>509,052</u>	<u>34,746</u>	<u>543,798</u>
Segment profit (loss)	<u>178,722</u>	<u>(2,810)</u>	175,912
Unallocated income and gains			16,244
Unallocated expenses			(38,696)
Share of losses of associates			<u>(142)</u>
Profit before taxation			<u>153,318</u>

The segment profit of mobile Internet business during the three and nine months ended 30 September 2012 included net loss on derivative financial instruments relating to redeemable convertible preferred shares of RMB12,389,000 and RMB32,630,000, respectively (three and nine months ended 30 September 2011: RMB210,000) and finance costs relating to redeemable convertible preferred shares and promissory notes of RMB4,511,000 and RMB13,559,000, respectively (three and nine months ended 30 September 2011: RMB316,000).

The accounting policies of the operating segment are the same as the Group's accounting policies. The CODM assesses segment profit or loss using a measure of operating profit whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, share of losses of associates, net loss 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.

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

	30 September	31 December
	2012	2011
	<i>(Unaudited)</i>	<i>(Audited)</i>
	RMB'000	RMB'000
Online game	1,577,797	1,513,587
Mobile Internet business	<u>355,330</u>	<u>216,745</u>
Total segment assets	1,933,127	1,730,332
Unallocated	<u>296,119</u>	<u>166,488</u>
	<u>2,229,246</u>	<u>1,896,820</u>

6. TAXATION

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
Hong Kong Profits Tax	923	1,631	1,396	5,353
The Peoples' Republic of China (the "PRC") Enterprise Income Tax (“EIT”)	17,215	7,418	42,454	20,333
Taxation in other jurisdictions	<u>74</u>	<u>75</u>	<u>174</u>	<u>136</u>
	<u>18,212</u>	<u>9,124</u>	<u>44,024</u>	<u>25,822</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the three months and nine months ended 30 September 2012 and 2011.

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.

7. PROFIT FOR THE PERIOD

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):				
Staff costs:				
Directors' emoluments	1,551	1,412	4,367	3,900
Other staff costs				
Salaries and other benefits	64,664	52,624	198,143	160,595
Contributions to retirement benefits schemes	7,055	5,121	17,866	14,316
Share-based payments expense	4,375	2,609	14,393	4,660
	<u>77,645</u>	<u>61,766</u>	<u>234,769</u>	<u>183,471</u>
Allowances on trade receivables	2,641	—	2,641	—
Amortisation of intangible assets (included in cost of revenue)	642	2,347	1,867	6,038
Amortisation of intangible assets (included in other expenses)	19	2,715	1,387	3,894
Release of prepaid lease payments (included in administrative expenses)	367	487	1,096	1,045
Depreciation of property, plant and equipment	5,390	8,226	18,339	28,011
Operating lease rentals in respect of				
- rented premises	4,225	3,275	12,690	11,724
- computer equipment	16,132	9,429	43,563	23,783
Net foreign exchange (gain) loss	(8,115)	6,817	(6,555)	13,876
Written off of intangible assets (included in other expenses)	—	—	2,036	—
Loss (gain) on disposal of property, plant and equipment	76	145	75	(41)

8. DIVIDENDS

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend of Hong Kong Dollar ("HKD") 0.12 per share for the year ended 31 December 2011 recognised as distribution during the interim period (2011: HKD0.02 per share for the year ended 31 December 2010)	<u>—</u>	<u>—</u>	<u>50,062</u>	<u>8,994</u>

Interim dividend of HKD0.15 per share for the six months ended 30 June 2012 (six months ended 30 June 2011: HKD0.10 per share), amounting to RMB62,927,000 (six months ended 30 June 2011: RMB43,957,000) in aggregate, had been approved by the Directors of the Company at the board meeting on 24 August 2012 and was paid on 14 September 2012.

The Directors of the Company do not recommend the payment of an interim dividend for the three months ended 30 September 2012 (three months ended 30 September 2011: Nil).

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:

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of basic and diluted earnings per share				
- profit for the period attributable to the owners of the Company	<u>95,399</u>	<u>49,771</u>	<u>196,201</u>	<u>127,300</u>

	Number of shares			
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	'000	'000	'000	'000
Weighted average number of shares in issue during the period, for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	503,490	524,990	509,797	526,113
Effect of dilutive potential shares from the Company's share option scheme	<u>1,963</u>	<u>—</u>	<u>3,183</u>	<u>—</u>
Weighted average number of shares for the purposes of diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	<u>505,453</u>	<u>524,990</u>	<u>512,980</u>	<u>526,113</u>

The computation of diluted earnings per share for the three-month and nine-month periods ended 30 September 2012 has not taken into account the effect of share awards and redeemable convertible preferred shares issued by a subsidiary of the Company since these are anti-dilutive.

The computation of diluted earnings per share for the three-month and nine-month periods ended 30 September 2011 has not taken into account the effect of redeemable convertible preferred shares issued by a subsidiary of the Company since these are anti-dilutive, and the effect of potential shares granted under share option scheme of the Company because the exercise price of the share option was higher than the average market price of the Company's shares for the period.

10. PROPERTY, PLANT AND EQUIPMENT

During the nine-month period ended 30 September 2012, the Group spent RMB87,267,000 (nine-month period ended 30 September 2011: RMB64,200,000) for the acquisition and additions of property, plant and equipment to expand its operations which mainly included RMB32,027,000 for the nine months ended 30 September 2012 (nine months ended 30 September 2011: RMB4,696,000) in office and computer equipment and RMB50,321,000 for the nine months ended 30 September 2012 (nine months ended 30 September 2011: RMB51,751,000) in construction in progress of office buildings located in Fuzhou.

11. PREPAID LEASE PAYMENTS/INVESTMENT PROPERTY

During the nine-month period ended 30 September 2012, the Group spent RMB55,958,000 (nine-month period ended 30 September 2011: Nil) for the acquisition of prepaid lease payment to expand its office buildings located in Fuzhou. Among the RMB55,958,000, RMB19,050,000 was paid in 2011 and recorded as deposit paid for acquisition of property, plant and equipment as at 31 December 2011. RMB36,908,000 was paid during the nine-month period ended 30 September 2012. The Group is in the process of obtaining the land use right certificate.

The Group's investment property as at 30 September 2012 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. The fair value of the investment property has been increased by RMB163,000 between 30 September 2012 and 31 December 2011 (2011: Increase in fair value of approximately RMB2,003,000).

12. INTERESTS IN ASSOCIATES

	30 September 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Unlisted investments outside Hong Kong:		
Cost of investments	13,750	13,250
Share of post-acquisition losses	<u>(1,602)</u>	<u>(581)</u>
	<u>12,148</u>	<u>12,669</u>
Share of net assets	<u>8,389</u>	<u>8,910</u>

As at 30 September 2012, the Group had interests in the following associates:

Name of entities	Percentage of registered capital directly held by the Group	Country of establishment/ operation	Registered capital	Principal activities
廈門易用軟件技術有限公司 (E-Yong Websoft Inc.*)	50%	PRC	RMB3,000,000	Provision of business management software application development
上海博股信息科技有限公司 (Shanghai Bogu Information Technology Co., Ltd*)	35%	PRC	RMB5,000,000	Provision of software for stock information enquiries
濟南四葉草信息技術有限公司 (CloverTek Co., Ltd*)	12%	PRC	RMB579,600	Provision of software application development and maintenance
北京九康益電子商務有限公司 (Beijing 9YEE E-Commerce Co. Ltd.*)	40%	PRC	RMB15,000,000	Provision for sales of health food through mobile Internet
北京米酷倍顯軟件技術有限公司 (Beijing Miku-Bigscreen Software Technology Ltd.*) (Note)	50%	PRC	RMB1,000,000	Provision of software application development and maintenance

Note: The entity was newly established during the nine-month period ended 30 September 2012.

13. LONG-TERM DEPOSIT

On 17 August 2012, the Group entered into an agreement with independent third parties to acquire 100% equity interests in a subsidiary at consideration of RMB12,000,000. As at 30 September 2012, the Group has paid a deposit of RMB3,600,000. The acquisition was completed in November 2012. Details of the capital commitments are disclosed in note 22.

* *For identification purpose only*

14. TRADE RECEIVABLES

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

	30 September 2012 <i>(Unaudited)</i> RMB'000	31 December 2011 <i>(Audited)</i> RMB'000
0 - 30 days	46,132	22,261
31 - 60 days	21,794	5,364
61 - 90 days	7,957	6,737
Over 90 days	<u>5,586</u>	<u>7,193</u>
	<u>81,469</u>	<u>41,555</u>

15. TRADE PAYABLES

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

	30 September 2012 <i>(Unaudited)</i> RMB'000	31 December 2011 <i>(Audited)</i> RMB'000
0 - 90 days	29,605	4,641
91 - 180 days	1,179	323
181 - 365 days	112	26
Over 365 days	<u>258</u>	<u>11</u>
	<u>31,154</u>	<u>5,001</u>

16. SECURED BANK LOAN

In the current interim period, the Group obtained new bank loan amounting to RMB185,174,000. The secured bank loan is denominated in HKD, carries interest rate of 4.14% per annum and repayable on 13 June 2013. The loan is secured by the pledged bank deposit of RMB191,387,000 which is denominated in Euros ("EURO").

17. OTHER FINANCIAL LIABILITY

Derivative not under hedge accounting

During the current interim period, 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 loan arrangement as mentioned in note 16.

Major terms of foreign currency forward contracts for sale of EURO are as follows:

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

As at 30 September 2012, fair value loss of approximately RMB6,183,000 was recognised in the profit or loss. The fair value of foreign currency forward contract is measured using quoted forward exchange rate at the end of reporting period.

18. PROMISSORY NOTES

On 21 September 2011, 91 Limited, a subsidiary of the Company, issued promissory notes with a total principal amount of USD5,000,000 (equivalent to approximately RMB31,774,000) to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors 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, to enhance the working capital and strengthen the capital base and financial position of 91 Limited’s subsidiaries, which are engaged in mobile Internet business and for further investments by 91 Limited. The promissory notes bear no interest and become due and payable at the option of the note holders at any time on and after 20 March 2012 (the “Maturity Date”). The promissory notes bear interest of 8% per annum for the period from the date immediately after the Maturity Date and until the time the promissory notes are fully repaid.

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

On 17 February 2012, all the promissory notes were converted into 4,006,250 shares of series B redeemable convertible preferred shares at a conversion price of approximately USD1.248 per share.

19. REDEEMABLE CONVERTIBLE PREFERRED SHARES

91 Limited, a subsidiary of the Company issued 15,384,000 series A redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD3,999,840 to IDG Companies 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. During the period ended 30 September 2012, the promissory notes issued by the subsidiary of the Company have been converted into 4,006,250 series B redeemable convertible preferred shares. Both series A and series B redeemable convertible preferred shares are denominated in United States dollars.

Both series A and series B redeemable convertible preferred shares contain two components, liability component and conversion option and other derivatives. The effective interest rate of the liability component of the series A and series B redeemable convertible preferred shares issued in 2011 is 16.834% per annum and the effective interest rate of the liability component of the series B redeemable convertible preferred shares issued on 17 February 2012 is 14.23% per annum. The conversion option and other derivatives are measured at fair value with changes in fair value recognised in profit or loss.

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 below:

	Liability component RMB'000	Conversion option and other derivatives RMB'000
At 1 January 2012	131,675	39,932
Exchange realignment	1,106	339
Converted from promissory notes	29,262	2,234
Interest charge	12,936	—
Loss arising on changes of fair value	<u>—</u>	<u>32,630</u>
At 30 September 2012	<u>174,979</u>	<u>75,135</u>

The fair value of each underlying share of 91 Limited is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 16.93%, 17.78% and 18.45% were used as at 30 September 2012, 17 February 2012 and 31 December 2011, respectively.

The assumptions adopted for the valuation of the conversion option derivative component of the redeemable convertible preferred shares using Binomial option pricing model as of 30 September 2012, 17 February 2012 and 31 December 2011 were as follows:

Series A redeemable convertible preferred shares

	30 September 2012	31 December 2011
Risk-free interest rate (i)	0.35%	0.81%
Expected volatility (ii)	40.28%	71.83%

Series B redeemable convertible preferred shares

	30 September 2012	17 February 2012	31 December 2011
Risk-free interest rate (i)	0.35%	0.62%	0.62%
Expected volatility (ii)	40.28%	63.85%	72.17%

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.

20. 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 23 April 2012, 6 July 2012 and 12 September 2012. Details of such share options are as follows:

Date of grant	Vesting period	Exercisable period	Outstanding at 30 September 2012
23 April 2012	23 April 2012 - 22 April 2013	23 April 2013 - 22 April 2022	500,950
23 April 2012	23 April 2012 - 22 April 2014	23 April 2014 - 22 April 2022	601,425
23 April 2012	23 April 2012 - 22 April 2015	23 April 2015 - 22 April 2022	1,001,900
23 April 2012	23 April 2012 - 22 April 2016	23 April 2016 - 22 April 2022	502,375
23 April 2012	23 April 2012 - 22 April 2017	23 April 2017 - 22 April 2022	602,850
			<u>3,209,500</u>

Date of grant	Vesting period	Exercisable period	Outstanding at 30 September 2012
6 July 2012	6 July 2012 - 5 July 2013	6 July 2013 - 5 July 2022	73,525
6 July 2012	6 July 2012 - 5 July 2014	6 July 2014 - 5 July 2022	110,288
6 July 2012	6 July 2012 - 5 July 2015	6 July 2015 - 5 July 2022	147,050
6 July 2012	6 July 2012 - 5 July 2016	6 July 2016 - 5 July 2022	183,812
6 July 2012	6 July 2012 - 5 July 2017	6 July 2017 - 5 July 2022	220,575
			<u>735,250</u>

Date of grant	Vesting period	Exercisable period	Outstanding at 30 September 2012
12 September 2012	12 September 2012 - 11 September 2013	12 September 2013 - 11 September 2022	11,750
12 September 2012	12 September 2012 - 11 September 2014	12 September 2014 - 11 September 2022	17,625
12 September 2012	12 September 2012 - 11 September 2015	12 September 2015 - 11 September 2022	23,500
12 September 2012	12 September 2012 - 11 September 2016	12 September 2016 - 11 September 2022	29,375
12 September 2012	12 September 2012 - 11 September 2017	12 September 2017 - 11 September 2022	35,250
			<u>117,500</u>

The fair value of options granted on 23 April 2012, 6 July 2012 and 12 September 2012 was approximately RMB5,609,000, RMB1,224,000 and RMB231,000, respectively. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	12 September 2012	6 July 2012	23 April 2012
Closing price of the Company's shares on grant date	HKD7.20	HKD6.27	HKD5.61
Exercise price	HKD7.20	HKD6.53	HKD5.74
Risk-free interest rate	0.446-0.550%	0.714-0.815%	0.895-1.017%
Expected option life	7.7-8.7 years	7.7-8.7 years	7.7-8.7 years
Expected volatility	42.83%	43.23%	48.75%
Expected dividend yield	2.63%	2.82%	2.69%

Expected volatility was determined by using the historical volatility of the Company's share price over 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

	Number of Share options
Outstanding as at 1 January 2012	23,651,900
Granted during the period	4,086,750
Forfeited during the period	(971,870)
Exercised during the period	<u>(15,780)</u>
Outstanding as at 30 September 2012	<u><u>26,751,000</u></u>

The Group recognised the total expenses of approximately RMB3,399,000 and RMB9,161,000 for the three months and nine months ended 30 September 2012, respectively (three months and nine months ended 30 September 2011: approximately RMB3,391,000 and RMB6,361,000, respectively) in relation to share options granted by the Company.

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

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

Fair value of the Award at the grant date is determined by reference to the market price immediately available upon the grant date. The Group recognised the total expenses of approximately RMB10,000 and RMB30,000 for the three months and nine months period ended 30 September 2012 (three months and nine months period ended 30 September 2011: approximately RMB42,000 and approximately RMB126,000, respectively) in relation to share award, respectively.

No share awards were granted, vested and released during the current interim period. The number of share awards outstanding at 30 September 2012 and 31 December 2011 were 79,677.

(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 Limited, introduced a share award scheme (the “91 Share Award Scheme”), whereby eligible participants are conferred rights by 91 Limited to be issued or transferred fully-paid ordinary shares in the capital of 91 Limited (hereinafter referred to as the “91 Award”).

The rationale of the 91 Share Award Scheme is to recognise the contributions by selected participants and to provide incentives in order to retain them for the continual operation and development of 91 Limited and its subsidiaries (hereinafter referred to as “91 Group”), and to attract suitable personnel for further development of the 91 Group. The selected participants are not required to pay for the grant of the 91 Award or for the shares allotted or allocated pursuant to the 91 Award.

The maximum number of the 91 Award to a selected participant is not permitted to exceed 1% of the issued share capital and total preferred shares of 91 Limited from time to time. The aggregate number of shares which may be awarded to the selected participants under the 91 Share Award Scheme shall not exceed 9,615,000 shares of 91 Limited or such number of 91 Award as determined by the board of directors of 91 Limited from time to time.

During the current period and as at 30 September 2012, the number of shares granted under the 91 Share Award Scheme was 2,981,300 (30 December 2011: Nil). Among the shares of 91 Award granted, 823,983 of the shares of 91 Award were vested on 8 February 2012, 823,983 shares of 91 Award were vested on 7 June 2012, 823,983 shares of 91 Award will be vested on 7 June 2013 and the remaining 509,351 shares of 91 Award will be vested on 7 June 2014.

The eligibility of participants to participate in the 91 Share Award Scheme and number of shares which are the subject of each 91 Award at each date of grant to a selected participant in accordance with the 91 Share Award Scheme shall be determined at the absolute discretion of the board of Directors of 91 Limited to administer the 91 Share Award Scheme.

In determining the number of shares to be awarded, the board of directors of 91 Limited shall have reference to the financial performance of 91 Limited and its subsidiaries as reflected in the profit before taxation of the financial year.

Fair value of the 91 Award at the grant date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the grant date. In determining the fair value, a weighted average cost of capital of 18.17% was used as the grant date. The Group recognised the total expenses of approximately RMB1,864,000 and RMB7,528,000 for the three months and nine months ended 30 September 2012 (2011: Nil) in relation to the 91 Share Award Scheme.

21. RELATED PARTY TRANSACTIONS

The Group is ultimately controlled by the 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 with certain companies in which some Directors and shareholders of the Company have beneficial interests.

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

	Three months ended 30 September		Nine months ended 30 September	
	2012 <i>(Unaudited)</i> RMB'000	2011 <i>(Unaudited)</i> RMB'000	2012 <i>(Unaudited)</i> RMB'000	2011 <i>(Unaudited)</i> RMB'000
Nature of transactions				
Rental charges by Fuzhou 851	1,140	636	3,644	1,908
Service fee at recreation centre paid to Fuzhou 851	927	1,500	5,932	4,500
After-sales service fee paid to Fuzhou Tianliang	2,489	3,022	10,399	8,901
Technical service fee paid to Fuzhou Tianliang	385	648	1,551	1,907
Interest received on loan advanced to key management of the Group	<u>9</u>	<u>9</u>	<u>26</u>	<u>26</u>

In 2011, a subsidiary of the Company had issued USD5,000,000 promissory notes (equivalent to approximately RMB31,774,000) and USD3,999,840 (equivalent to approximately RMB25,839,000) redeemable convertible preferred shares to IDG Companies. During the period ended 30 September 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.

In addition, included in loan receivables at 30 September 2012 were loans advanced to key management of approximately RMB1,450,000 (31 December 2011: RMB1,700,000). The loans carry fixed interest at 4.896% per annum of which RMB900,000 is repayable in 2013 and RMB550,000 is repayable in 2014.

Compensation of key management personnel

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	1,440	832	5,742	3,002
Contributions to retirement benefits schemes	43	19	90	55
Share-based payments expense	<u>516</u>	<u>1,086</u>	<u>1,538</u>	<u>2,777</u>
	<u>1,999</u>	<u>1,937</u>	<u>7,370</u>	<u>5,834</u>

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

22. CAPITAL COMMITMENTS

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

	30 September 2012	31 December 2011
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	82,817	134,289
Capital expenditure in respect of acquisition of equity investment contracted for but not provided in the condensed consolidated financial statements	<u>8,400</u>	<u>—</u>
	<u>91,217</u>	<u>134,289</u>

23. EVENT AFTER THE REPORTING PERIOD

On 5 October 2012, a share subscription agreement (the “Share Subscription Agreement”) was entered between 91 Limited, a subsidiary of the Company, and Sino Coast Developments Limited, a wholly owned subsidiary of SMP Trustees (NZ) Limited, which is the trustee of The Knightsbridge Trust, a trust set up by the senior management of the Group, for the issuance of 1,602,500 series B redeemable convertible preferred shares of 91 Limited at a consideration of USD2,000,000. The series B preferred shares account for approximately 1.33% of the share capital of 91 Limited upon the full conversion of the preferred shares. Holders of the series B preferred shares have the right to convert the series B preferred shares to ordinary shares of 91 Limited at the conversion rate in respect thereof at any time after the issuance. The series B preferred shares are also subject to automatic conversion into fully paid and non-assessable ordinary shares of 91 Limited at the conversion rate in respect thereof. 91 Limited has the obligation to redeem all series B preferred shares at the redemption price of USD1.248 per series B preferred share plus cumulative rate of return of 12% per annum and any declared but unpaid dividends on the series B preferred shares after receipt of written request signed by the holders of at least two-thirds of the series B preferred shares at any time after the fourth (4th) anniversary of the original issuance date of series B preferred shares. The directors of the Company are still assessing the financial impact of this transaction.

Further details of the Share Subscription Agreement are set out in the announcement of the Company dated 8 October 2012.

OPERATION INFORMATION

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

	30 September	For the three months ended			
	2012	30 June	31 March	31 December	30 September
		2012	2012	2011	2011
PCU	525,000	582,000	600,000	612,000	569,000
ACU	281,000	307,000	297,000	310,000	300,000

Note: As at 30 September 2012, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online, Dungeon Keeper™ Online and other games.

The PCU for online game was approximately 525,000 for the three months ended 30 September 2012, representing a decrease of approximately 9.8% from the three months ended 30 June 2012 and representing a decrease of approximately 7.7% from the three months ended 30 September 2011.

We also recorded the ACU for online game of approximately 281,000 for the three months ended 30 September 2012, which represented a decrease of approximately 8.5% from the three months ended 30 June 2012 and represented a decrease of approximately 6.3% from the three months ended 30 September 2011.

**FINANCIAL PERFORMANCE HIGHLIGHTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012**

The following table sets forth the comparative figures for the nine months ended 30 September 2012 and 2011:

	Nine months ended	
	30 September	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	777,303	543,798
Cost of revenue	<u>(82,142)</u>	<u>(46,695)</u>
Gross profit	695,161	497,103
Other income and gains	32,489	20,787
Selling and marketing expenses	(107,953)	(94,063)
Administrative expenses	(164,745)	(151,839)
Development costs	(142,181)	(111,882)
Other expenses	(24,312)	(6,547)
Share of losses of associates	<u>(1,021)</u>	<u>(142)</u>
Operating profit	287,438	153,417
Interest income on pledged bank deposit	2,600	—
Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares	4,811	427
Net loss on derivative financial instruments	(38,813)	(210)
Finance costs	<u>(15,869)</u>	<u>(316)</u>
Profit before taxation	240,167	153,318
Taxation	<u>(44,024)</u>	<u>(25,822)</u>
Profit for the period	<u>196,143</u>	<u>127,496</u>
Profit for the period attributable to		
- Owners of the Company	196,201	127,300
- Non-controlling interests	<u>(58)</u>	<u>196</u>
	<u>196,143</u>	<u>127,496</u>

Revenue

During the three months ended 30 September 2012, we have revisited the terms of certain contracts entered into by the Group with cooperation partners in respect of game and application revenue generated in 2012 from mobile Internet business. 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 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, as reported in previous quarters. 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 nine months ended 30 September 2012. The comparative figure had not been restated because it is insignificant. We believe that the net basis comparison is more meaningful and relevant, therefore, we do provide the net basis comparison in the relevant sections.

Revenue for the nine months ended 30 September 2012 was approximately RMB777.3 million, representing an increase of approximately 42.9% as compared to approximately RMB543.8 million for the nine months ended 30 September 2011.

Online game

Our online game revenue for the nine months ended 30 September 2012 was approximately RMB596.6 million, representing an increase of approximately 17.2% as compared to approximately RMB509.1 million for the nine months ended 30 September 2011.

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

	Nine months ended 30 September		2011	
	2012		2011	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	514,528	86.2	408,261	80.2
Overseas	<u>82,112</u>	<u>13.8</u>	<u>100,791</u>	<u>19.8</u>
	<u>596,640</u>	<u>100.0</u>	<u>509,052</u>	<u>100.0</u>

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the nine months ended 30 September 2012 was approximately RMB514.5 million, representing an increase of approximately 26.0% over the nine months ended 30 September 2011.

The online game revenue derived from overseas markets for the nine months ended 30 September 2012 was approximately RMB82.1 million, representing a decrease of approximately 18.5% over the nine months ended 30 September 2011.

Mobile Internet business

The mobile Internet business revenue for the nine months ended 30 September 2012 was approximately RMB180.7 million, representing an increase of approximately 420.0% as compared to approximately RMB34.7 million over the same period in 2011.

The following table sets out the breakdown of geographical mobile Internet business revenue of the Group for the period indicated below:

	Nine months ended 30 September 2012	<i>% of mobile Internet business revenue</i>
	<i>RMB'000</i>	
PRC	171,671	95.0
Overseas	<u>8,992</u>	<u>5.0</u>
	<u>180,663</u>	<u>100.0</u>

The mobile Internet business revenue derived from the PRC and overseas markets for the nine months ended 30 September 2012 was approximately RMB171.7 million and approximately RMB9.0 million, respectively.

Reconciliation of mobile Internet revenue from gross basis to net basis

	Nine months ended	
	30 September	30 September
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recorded on gross basis	238,784	34,746
Less: Costs related to revenue acting as an agent	<u>58,121</u>	<u>440</u>
Revenue recorded on a net basis	<u>180,663</u>	<u>34,306</u>

The comparative figure had not been restated because it is insignificant, however, we believe that revenue recognised on a net basis for the nine months ended 30 September 2011 can be presented more relevant. The mobile Internet business revenue for the nine months ended 30 September 2012 was approximately RMB180.7 million, representing an increase of approximately as 426.6% compared to approximately RMB34.3 million for the nine months ended 30 September 2011.

Third Quarter of 2012

Revenue

Revenue for the third quarter of 2012 was approximately RMB290.1 million, representing an increase of approximately 5.1% from the second quarter of 2012 and an increase of approximately 43.1% over the same period in 2011.

However, the online game revenue for the third quarter of 2012 was approximately RMB204.0 million, representing an increase of approximately 1.5% from the second quarter of 2012 and an increase of approximately 11.2% over the same period in 2011.

Besides, the mobile Internet business revenue for the third quarter of 2012 was approximately RMB86.1 million, representing an increase of approximately 14.6% from the second quarter of 2012 and an increase of approximately 348.2% over the same period in 2011.

Cost of revenue

Cost of revenue for the third quarter of 2012 was approximately RMB37.4 million, representing a decrease of approximately 12.0% from the second quarter of 2012 and an increase of approximately 107.0% over the same period in 2011.

As change of mobile Internet revenue recognition mentioned previously, cost of revenue was reduced accordingly. Cost of revenue for the third quarter of 2012 was approximately RMB37.4 million, representing an increase of approximately 42.7% from the second quarter of 2012 and an increase of approximately 118.3% from the same period in 2011.

Other income and gains

Other income and gains of approximately RMB17.3 million were recorded for the third quarter of 2012, compared to other income and gains that of approximately RMB11.4 million and approximately RMB5.3 million for the second quarter of 2012 and the same period in 2011, respectively.

Selling and marketing expenses

Selling and marketing expenses for the third quarter of 2012 were approximately RMB37.4 million, representing an increase of approximately 0.8% from the second quarter of 2012 and an increase of approximately 9.0% over the same period in 2011.

Administrative expenses

Administrative expenses for the third quarter of 2012 were approximately RMB51.6 million, representing a decrease of approximately 5.0% from the second quarter of 2012 and representing a decrease of approximately 8.5% over the same period in 2011.

Development costs

Development costs for the third quarter of 2012 were approximately RMB46.2 million, representing a decrease of approximately 7.8% from the second quarter of 2012 and an increase of approximately 27.4% over the same period in 2011.

Other expenses

Other expenses for the third quarter of 2012 were approximately RMB7.6 million, representing a decrease of approximately 49.3% from the second quarter of 2012 and an increase of approximately 95.3% over the same period in 2011.

Net loss on derivative financial instruments

Net loss on derivative financial instruments for the third quarter of 2012 were approximately RMB15.5 million, representing a decrease of approximately 20.1% from the second quarter of 2012 and an increase of approximately 7,268.6% over the same period in 2011.

Finance costs

Finance costs for the third quarter of 2012 were approximately RMB6.8 million, representing an increase of approximately 57.9% from the second quarter of 2012 and an increase of approximately 2,058.5% over the same period in 2011.

Profit for the period

Profit for the third quarter of 2012 was approximately RMB95.3 million, representing an increase of approximately 111.8% from the second quarter of 2012 and an increase of approximately 91.1% over the same period in 2011. As a percentage of revenue, profit for the period accounted for approximately 32.8% for the third quarter of 2012, compared to approximately 16.3% for the second quarter of 2012 and approximately 24.6% for the same period of 2011.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the third quarter of 2012 was approximately RMB95.4 million, representing an increase of approximately 111.8% from the second quarter of 2012 and an increase of approximately 91.7% over the same period in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2012 Compared to Second Quarter of 2012

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

	Three months ended	
	30 September	30 June
	2012	2012
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	290,144	276,133
Cost of revenue	<u>(37,358)</u>	<u>(42,458)</u>
Gross profit	252,786	233,675
Other income and gains	17,322	11,397
Selling and marketing expenses	(37,388)	(37,078)
Administrative expenses	(51,564)	(54,270)
Development costs	(46,231)	(50,164)
Other expenses	(7,604)	(14,986)
Share of losses of associates	<u>(363)</u>	<u>(285)</u>
Operating profit	126,958	88,289
Interest income on pledged bank deposit	2,600	—
Exchange gain (loss) on pledged bank deposit, secured bank loan and redeemable convertible preferred shares	6,234	(1,642)
Net loss on derivative financial instruments	(15,474)	(19,378)
Finance costs	<u>(6,821)</u>	<u>(4,319)</u>
Profit before taxation	113,497	62,950
Taxation	<u>(18,212)</u>	<u>(17,964)</u>
Profit for the period	<u>95,285</u>	<u>44,986</u>
Profit for the period attributable to		
- Owners of the Company	95,399	45,032
- Non-controlling interests	<u>(114)</u>	<u>(46)</u>
	<u>95,285</u>	<u>44,986</u>

FINANCIAL REVIEW

Revenue

Revenue for the three months ended 30 September 2012 was approximately RMB290.1 million, representing an increase of approximately 5.1% 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 September 2012 was approximately RMB204.0 million, representing an increase of approximately 1.5% 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		Three months ended	
	30 September 2012		30 June 2012	
	<i>% of</i>		<i>% of</i>	
	<i>online</i>		<i>online</i>	
	<i>game</i>		<i>game</i>	
	<i>revenue</i>		<i>revenue</i>	
	<i>RMB'000</i>		<i>RMB'000</i>	
PRC	175,420	86.0	175,083	87.1
Overseas	<u>28,647</u>	<u>14.0</u>	<u>25,909</u>	<u>12.9</u>
	<u>204,067</u>	<u>100.0</u>	<u>200,992</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 September 2012 was approximately RMB175.4 million, representing an increase of approximately 0.2% 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 for the three months ended 30 September 2012.

The online game revenue derived from overseas markets for the three months ended 30 September 2012 was approximately RMB28.6 million, representing an increase of approximately 10.6% as compared to approximately RMB25.9 million for the three months ended 30 June 2012. The increase in online game revenue derived from overseas markets was mainly due to increase in revenue from Conquer Online for the three months ended 30 September 2012.

Mobile Internet business

As mentioned in revenue under the financial performance highlights, the mobile Internet business revenue is recognised on a net basis for revenue from the games/applications designed, developed and hosted by cooperation partners, instead of gross basis. The mobile Internet business revenue of approximately RMB58.9 million for the three months ended 30 June 2012 recorded on a net basis, comprising gross amount of approximately RMB75.1 million net of cooperation fee of approximately RMB16.2 million.

The mobile Internet business revenue for the three months ended 30 September 2012 was approximately RMB86.1 million, representing an increase of approximately 14.6% 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 games revenue; and (ii) the increase of mobile advertising revenue due to its increase in the overall popularity.

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

	Three months ended			
	30 September 2012		30 June 2012	
		<i>% of mobile Internet business revenue</i>		<i>% of mobile Internet business revenue</i>
	<i>RMB'000</i>		<i>RMB'000</i>	
PRC	83,580	97.1	68,978	91.8
Overseas	<u>2,497</u>	<u>2.9</u>	<u>6,163</u>	<u>8.2</u>
	<u>86,077</u>	<u>100.0</u>	<u>75,141</u>	<u>100.0</u>

The mobile Internet business revenue derived from the PRC and overseas markets for the three months ended 30 September 2012 was approximately RMB83.6 million and approximately RMB2.5 million, respectively.

Reconciliation of mobile Internet revenue from gross basis to net basis

	Three months ended	
	30 September	30 June
	2012	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recorded on gross basis	118,249	75,141
Less: Costs related to revenue acting as an agent	<u>32,172</u>	<u>16,284</u>
Revenue recorded on a net basis	<u>86,077</u>	<u>58,857</u>

The comparative figure had not been restated because it is insignificant, however, we believe that revenue recognised on a net basis for the three months ended 30 June 2012 can be presented more relevant. The mobile Internet business revenue for the three months ended 30 September 2012 was approximately RMB86.1 million, representing an increase of approximately 46.2% compared to approximately RMB58.9 million for the three months ended 30 June 2012.

Cost of revenue

Cost of revenue for the three months ended 30 September 2012 was approximately RMB37.4 million, representing a decrease of approximately 12.0% as compared to approximately RMB42.5 million for the three months ended 30 June 2012. The decrease was mainly due to offset of (i) the decrease in cooperation fees of mobile Internet business; (ii) the increase in the PRC server leasing costs due to the expansion of mobile Internet business; and (iii) the increase in message service fees for mobile Internet business.

Cost of revenue of mobile Internet business for the three months ended 30 September 2012 and 30 June 2012 were approximately RMB24.9 million and approximately RMB30.5 million, respectively.

As change of mobile Internet revenue recognition mentioned previously, cost of revenue of mobile Internet business was reduced accordingly. Cost of revenue of mobile Internet business for the three months ended 30 September 2012 and 30 June 2012 were approximately RMB24.9 million and approximately RMB14.2 million, respectively.

Gross profit

Our gross profit for the three months ended 30 September 2012 was approximately RMB252.8 million, representing an increase of approximately 8.2% as compared to approximately RMB233.7 million for the three months ended 30 June 2012.

The gross profit margin for the three months ended 30 September 2012 was approximately 87.1%, representing an increase of approximately 2.5% as compared with the three months ended 30 June 2012.

Other income and gains

Other income and gains for the three months ended 30 September 2012 were approximately RMB17.3 million, representing an increase of approximately 52.0% as compared with the three months ended 30 June 2012. The increase was mainly caused by the increase in interest income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 September 2012 were approximately RMB37.4 million, which represented a relatively steady level as compared with the three months ended 30 June 2012. The steady level in selling and marketing expenses was mainly due to offset of (i) the increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development; and (ii) the decrease in expenditure of advertising for online games.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 September 2012, the number of operation and marketing staff in the mobile Internet business was 298, which was increased by approximately 38.6%, 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 September 2012 and 30 June 2012 were approximately RMB8.2 million and approximately RMB6.7 million, respectively.

Administrative expenses

Administrative expenses decreased by approximately 5.0% to approximately RMB51.6 million for the three months ended 30 September 2012 as compared with the three months ended 30 June 2012. The decrease was mainly due to decrease in repair, maintenance and technical support fees.

Besides that, the Group re-allocated the resources for the mobile Internet business. As at 30 September 2012, the total number of accounting, finance and general administration staff in the mobile Internet business was 58, which was increased by approximately 26.1%, as compared with the number of staff as at 30 June 2012. The total administrative expenses of mobile Internet business for the three months ended 30 September 2012 and 30 June 2012 were approximately RMB6.5 million and approximately RMB7.2 million, respectively.

Development costs

Development costs decreased by approximately 7.8% to approximately RMB46.2 million for the three months ended 30 September 2012 as compared with the three months ended 30 June 2012. The decrease in the amount of development costs was mainly caused by the offset of (i) the decrease in staff costs; and (ii) the increase in expenditure of outsourcing services for online games.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 September 2012, the total number of research and development staff in the mobile Internet business was 554, which was increased by approximately 19.4%, 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 September 2012 and 30 June 2012 were approximately RMB12.4 million and approximately RMB12.9 million, respectively.

Other expenses

Other expenses for the three months ended 30 September 2012 were approximately RMB7.6 million, which represented a decrease of approximately 49.3% as compared with the three months ended 30 June 2012. The decrease was mainly due to offset of (i) the increase in donation to the Youth Business China (Fujian, Haixi)* (福建海西青年創業基金會); (ii) the increase in business tax for inter-group sales; (iii) the increase in allowances on trade receivables; and (iv) the decrease in compensation for termination of a contract and write off of intangible assets.

* *For identification purpose only*

Net loss on derivative financial instruments

Net loss on derivative financial instruments decreased by approximately 20.1% to approximately RMB15.5 million for the three months ended 30 September 2012 as compared with the three months ended 30 June 2012, which was mainly due to the decrease in fair value loss of conversion option and other derivatives of the redeemable convertible preferred shares.

Finance costs

Finance costs increased by approximately 57.9% to approximately RMB6.8 million for the three months ended 30 September 2012 as compared with the three months ended 30 June 2012, which was mainly due to the increase in interest expenses on bank loan.

Taxation

Taxation for the three months ended 30 September 2012 was approximately RMB18.2 million, which increased by approximately 1.4% as compared with the three months ended 30 June 2012. The increase was mainly due to the increase in taxable 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 September 2012 was approximately RMB95.4 million, representing an increase of approximately RMB50.4 million as compared with approximately RMB45.0 million for the three months ended 30 June 2012.

Third Quarter of 2012 Compared to Third Quarter of 2011

The following table sets forth the comparative figures for the third quarter of 2012 and 2011:

	Three months ended	
	30 September	
	2012	2011
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	290,144	202,739
Cost of revenue	<u>(37,358)</u>	<u>(18,043)</u>
Gross profit	252,786	184,696
Other income and gains	17,322	5,303
Selling and marketing expenses	(37,388)	(34,310)
Administrative expenses	(51,564)	(56,373)
Development costs	(46,231)	(36,280)
Other expenses	(7,604)	(3,894)
Share of losses of associates	<u>(363)</u>	<u>(65)</u>
Operating profit	126,958	59,077
Interest income on pledged bank deposit	2,600	—
Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares	6,234	427
Net loss on derivative financial instruments	(15,474)	(210)
Finance costs	<u>(6,821)</u>	<u>(316)</u>
Profit before taxation	113,497	58,978
Taxation	<u>(18,212)</u>	<u>(9,124)</u>
Profit for the period	<u>95,285</u>	<u>49,854</u>
Profit for the period attributable to		
- Owners of the Company	95,399	49,771
- Non-controlling interests	<u>(114)</u>	<u>83</u>
	<u>95,285</u>	<u>49,854</u>

FINANCIAL REVIEW

Revenue

Revenue for the three months ended 30 September 2012 was approximately RMB290.1 million, representing an increase of approximately 43.1% as compared to approximately RMB202.7 million for the three months ended 30 September 2011.

Online game

Our online game revenue for the three months ended 30 September 2012 was approximately RMB204.0 million, representing an increase of approximately 11.2% as compared to approximately RMB183.5 million for the three months ended 30 September 2011.

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

	Three months ended 30 September		2011	
	2012		2011	
	<i>RMB'000</i>	<i>% of online game revenue</i>	<i>RMB'000</i>	<i>% of online game revenue</i>
PRC	175,420	86.0	148,003	80.6
Overseas	<u>28,647</u>	<u>14.0</u>	<u>35,530</u>	<u>19.4</u>
	<u>204,067</u>	<u>100.0</u>	<u>183,533</u>	<u>100.0</u>

The online game revenue derived from the PRC for the three months ended 30 September 2012 was approximately RMB175.4 million, representing an increase of approximately 18.5% as compared to approximately RMB148.0 million for the three months ended 30 September 2011. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from Eudemons Online.

The online game revenue derived from overseas markets for the three months ended 30 September 2012 amounted to approximately RMB28.6 million, representing a decrease of approximately 19.4% as compared with that of approximately RMB35.5 million for the three months ended 30 September 2011.

Mobile Internet business

As mentioned in revenue under the financial performance highlights, the mobile Internet business revenue is recognised on a net basis for revenue from the games/applications designed, developed and hosted by cooperation partners, instead of gross basis. The mobile Internet business revenue of approximately RMB18.3 million for the three months ended 30 September 2011 recorded on a net basis, comprising gross amount of approximately RMB19.2 million net of cooperation fee of approximately RMB0.9 million.

The mobile Internet business revenue for the three months ended 30 September 2012 was approximately RMB86.1 million, representing an increase of approximately 348.2% as compared to approximately RMB19.2 million for the three months ended 30 September 2011. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to the expansion of business networks; (ii) the increase of mobile platforms revenue due to its increase in its overall popularity.

The following table sets out the breakdown of geographical mobile Internet business revenue of the Group for the period indicated below:

	Three months ended			
	30 September 2012	30 September 2011		
	<i>RMB'000</i>	<i>% of mobile Internet business revenue</i>	<i>RMB'000</i>	<i>% of mobile Internet business revenue</i>
PRC	83,580	97.1	19,025	99.1
Overseas	<u>2,497</u>	<u>2.9</u>	<u>181</u>	<u>0.9</u>
	<u>86,077</u>	<u>100.0</u>	<u>19,206</u>	<u>100.0</u>

The mobile Internet business revenue derived from the PRC and overseas markets for the three months ended 30 September 2012 was approximately RMB83.6 million and approximately RMB2.5 million, respectively.

Reconciliation of mobile Internet revenue from gross basis to net basis

	Three months ended	
	30 September	30 September
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recorded on gross basis	118,249	19,206
Less: Costs related to revenue acting as an agent	<u>32,172</u>	<u>927</u>
Revenue recorded on a net basis	<u>86,077</u>	<u>18,279</u>

The comparative figure had not been restated because it is insignificant, however, we believe that presentation of revenue recognised on a net basis for the three months ended 30 September 2011 can be presented more relevant. The mobile Internet business revenue for the three months ended 30 September 2012 was approximately RMB86.1 million, representing an increase of approximately 370.9% compared to approximately RMB18.3 million for the three months ended 30 September 2011.

Cost of revenue

Cost of revenue for the three months ended 30 September 2012 increased by approximately 107.0% to approximately RMB37.4 million as compared with that of approximately RMB18.0 million for the three months ended 30 September 2011. The increase in cost of revenue was caused by (i) the increase in cooperation fees of mobile Internet business for strengthening the cooperation with third-party development on mobile Internet business; (ii) the increase in the PRC server leasing costs due to the growth in mobile Internet business; and (iii) the increase in message service fees.

Cost of revenue of mobile Internet business for the three months ended 30 September 2012 and 30 September 2011 were approximately RMB24.9 million and approximately RMB2.9 million, respectively.

As change of mobile Internet revenue recognition mentioned previously, cost of revenue of mobile Internet business was reduced accordingly. Cost of revenue of mobile Internet business for the three months ended 30 September 2012 and 30 September 2011 were approximately RMB24.9 million and approximately RMB2.0 million, respectively.

Gross profit

Our gross profit for the three months ended 30 September 2012 was approximately RMB252.8 million, representing an increase of approximately 36.9% as compared to approximately RMB184.7 million for the three months ended 30 September 2011.

However, the gross profit margin for the three months ended 30 September 2012 was approximately 87.1%, which representing a decrease of approximately 4.0% as compared with the three months ended 30 September 2011.

Other income and gains

Other income and gains for the three months ended 30 September 2012 increased by approximately 226.6% to approximately RMB17.3 million as compared with the three months ended 30 September 2011. The increase in other income and gains was mainly caused by the increase in interest income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 30 September 2012 increased by approximately 9.0% to approximately RMB37.4 million as compared with the three months ended 30 September 2011. The increase in selling and marketing expenses was mainly due to offset of (i) the decrease in advertising and promotion activities of our online game business; and (ii) the increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 September 2012, the number of operation and marketing staff in the mobile Internet business was 298 which was increased by approximately 292.1%, as compared with the number of staff as at 30 September 2011. The selling and marketing expenses of mobile Internet business for the three months ended 30 September 2012 and 30 September 2011 were approximately RMB8.2 million and approximately RMB5.5 million, respectively.

Administrative expenses

Administrative expenses decreased by approximately 8.5% to approximately RMB51.6 million for the three months ended 30 September 2012 as compared with the three months ended 30 September 2011. The main reasons for the decrease in administrative expenses was due to offset of (i) the increase in share-based payments for the grant of share options to certain eligible participants as incentives and staff benefits in order to retain them for the contribution of the Group; (ii) the increase in legal and professional fee; (iii) the increase in rental expenses; and (iv) the decrease in repair, maintenance and technical support fees.

Besides that, the Group re-allocated the resources for the mobile Internet business. As at 30 September 2012, the total number of accounting, finance and general administration staff in the mobile Internet business was 58, which was increased by

approximately 81.3% as compared with the number of staff as at 30 September 2011. The administrative expenses of mobile Internet business for the three months ended 30 September 2012 and 30 September 2011 were approximately RMB6.5 million and approximately RMB1.1 million, respectively.

Development costs

Development costs increased by approximately 27.4% to approximately RMB46.2 million for the three months ended 30 September 2012 as compared with the three months ended 30 September 2011. The number of staff in our development team increased from 1,464 as at 30 September 2011 to 1,890 as at 30 September 2012. The increase in development costs was mainly due to the net effect of (i) the increase in staff costs related to recruiting experienced staff to strengthen the mobile internet business operations and development; and (ii) the increase in expenditure of outsourcing services for online games.

The Group re-allocated the resources for the development of the mobile Internet business. As at 30 September 2012, the total number of research and development staff in the mobile Internet business was 554, which was increased by approximately 179.8%, as compared with the number of staff as at 30 September 2011. The total development costs of mobile Internet business for the three months ended 30 September 2012 and 30 September 2011 were approximately RMB12.4 million and approximately RMB3.6 million, respectively.

Other expenses

Other expenses for the three months ended 30 September 2012 were approximately RMB7.6 million, which represented an increase of approximately 95.3% as compared with the three months ended 30 September 2011. The increase in other expenses was mainly caused by the net effect of (i) the increase in donation to the Youth Business China (Fujian, Haixi)* (福建海西青年創業基金會); (ii) the increase in business tax for inter-group sales; (iii) the increase in allowances on trade receivables; and (iv) the decrease in amortization of intangible assets.

Net loss on derivative financial instruments

Net loss on derivative financial instruments increased by approximately 7,268.6% to approximately RMB15.5 million for the three months ended 30 September 2012 as compared with the three months ended 30 September 2011, which was due to (i) the increase in fair value loss of conversion option and other derivatives of the redeemable convertible preferred shares; and (ii) the increase in fair value loss of foreign currency forward contract.

* *For identification purpose only*

Finance costs

Finance costs increased by approximately 2,058.5% to approximately RMB6.8 million for the three months ended 30 September 2012 as compared with the three months ended 30 September 2011, which was due to (i) the increase in interest expenses on the liability component of the redeemable convertible preferred shares; and (ii) the increase in interest expenses on bank loan.

Taxation

Taxation for the three months ended 30 September 2012 rose by approximately 99.6% as compared with the three months ended 30 September 2011. The increase as compared with the three months ended 30 September 2011 was mainly due to growth in taxable 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 September 2012 was approximately RMB95.4 million, representing an increase of approximately RMB45.6 million as compared with approximately RMB49.8 million for the three months ended 30 September 2011.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2012, we had bank deposits, bank balances and cash and pledged deposit of approximately RMB1,636.0 million (31 December 2011: RMB1,468.9 million), out of which about RMB191.4 million has been pledged to bank to secure loan (31 December 2011: Nil). The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.12 (31 December 2011: Nil). As at 30 September 2012, total bank loan of the Group amounted to approximately RMB185.2 million was fixed rate loan.

As at 30 September 2012, the Group had net current assets of approximately RMB1,371.2 million as compared with approximately RMB1,329.7 million as at 31 December 2011.

STAFF INFORMATION

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

	At 30 September 2012	At 30 June 2012	At 30 September 2011
Research and development	1,890	1,724	1,464
Operation and marketing	862	717	494
Accounting, finance and general administration	<u>457</u>	<u>379</u>	<u>349</u>
Total	<u>3,209</u>	<u>2,820</u>	<u>2,307</u>

As at 30 September 2012, we had a total of 3,209 employees (30 June 2012 and 30 September 2011: 2,820 and 2,307, respectively), 721 of which were online game developers of the research and development department, representing approximately 22.5% 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 September 2012	At 30 June 2012	At 30 September 2011
Research and development	554	464	198
Operation and marketing	298	215	76
Accounting, finance and general administration	<u>58</u>	<u>46</u>	<u>32</u>
Total	<u>910</u>	<u>725</u>	<u>306</u>

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

During the period under review, the Group has endeavored 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.

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 continuously launched new expansion packs to enrich its existing games. The Group has carried out closed beta testings for the two new Chinese expansion packs of Zero Online called “Version of Pet Function”* (騎寵功能版本) and “Version of the Worms Mission Function Needs”* (蟲族任務功能需求版本) in March and May 2012, respectively. In April and September 2012, the new expansion packs of Eudemons Online called “Legacy of Asgard”* (神域爭霸) and “Cult of the Shadow Sun” (末日亡靈) were released, respectively. In addition, the new expansion pack for Disney Fantasy Online of the Group was launched under two separate phases in August and September 2012.

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.

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In respect of the self-operated online games, the Group has launched the expansion pack “Invasion of Pirates”* (海盜來襲) for Conquer Online in English, French, Spanish, Arabian and traditional Chinese. The Group expects the offer of additional in-game items and premium features will bolster the popularity of its online games.

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

Games in the pipeline

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

Starting from 2010, the Group has carried out four closed beta testings for its first 3D MMORPG, Dungeon Keeper™ Online (previously named as World of Dungeon Keeper™), and an open beta has been carried out in April 2012.

Mobile Internet Business

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

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In 2012, the Group continues to launch self-developed software products for smart-phones, which cover a wide range of smart-phone platforms. As of September 2012, the increase in the total number of users of the 91 Series mobile phone software (including 91 Panda Reader * (91熊貓看書), 91 Panda Desktop* (91熊貓桌面), 91 Assistant* (91助手) and HiMarket* (安市場) etc.), one of the advanced mobile phone applications in the PRC, has broken its own record. In particular, 91 Assistant has solved the software installation problems of iOS6 in the industry. As the first application store product perfectly supporting iOS6 with various functions such as online community function, reward mechanism and address book cloud synchronization service, it has enhanced the users' experience while improving the competitiveness of some products. Meanwhile, 91 Assistant has introduced mobile phone life part, including mobile phone information, mobile phone peripheral products and life services, which allows users to have more choices. During the period under review, 91 Panda Desktop* (91熊貓桌面) has launched a new version of Android V3.0 and has added iPhone version with many useful functions. Furthermore, it will continue to focus on its performance, message notification mechanism and external cooperation.

During the period under review, the Group has further introduced the updated versions of self-developed cross-platform mobile games, such as 91 Farm* (91農場), Hengha Warring States* (哼哈三國) and Warring States* (戰國天下). These games also provide numerous interactive features for players and their friends, enhancing the loyalty of the game players significantly.

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

As of 30 September 2012, the mobile Internet business of the Group has 910 employees, representing approximately 28.4% of the overall staff headcount, which secured the leading position of the Group's mobile Internet business in the future.

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Enhancement of R&D capabilities

The intense competition in the online game and mobile Internet application industries has driven the Group to focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 30 September 2012, the Group's overall staff headcount was 3,209, of which 1,890 were members of the development team. After more than a decade of talent cultivation, the development team of the Group has gathered expertise in programming, design and graphics, which will support its frequent R&D, online and mobile game updates and software and application upgrades to accommodate the latest player preferences and satisfy emerging market trends.

PROSPECTS AND OUTLOOK

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

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

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

Online Games

MMORPGs

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

*Age of Emblem** (紋章物語) (previously named as *Age of Magic** (魔法VS蒸汽)).

The Group's first self-developed online game emphasizes community interaction, which carries features of an animated style, loveable and clear graphic design. The closed beta testing for this game will be carried out in December 2012.

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*Crazy Tribes** (瘋狂部落)

*Crazy Tribes** (瘋狂部落), a 2.5D MMORPG which is set against the background of primitive society, is a large multiplayer online game with a fresh and loveable art style. The highlights of this game include the lost mysterious ancient civilization, rich prehistoric monster systems, thrilling prehistoric adventure maps as well as fresh and interesting activities of the primitive tribes. The closed beta testing for this game has been carried out in September 2012, and the first open beta testing is expected to carry out in November 2012.

Other Online Games

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

*Absolute Force** (絕對火力)

A self-developed first-person role-playing shooting game of the Group which is set against the background of modern antiterrorism wars, carries features of realistic graphic designs and a wide range of virtual guns, and with enriched visual impacts and operation system by applying the 3D character animation. This game enables players to experience unprecedented excitement in the true-to-life virtual game world.

Mobile Internet Business

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

During the period under review, the Group's mobile advertising business continued to maintain a rapid growth. Mobile advertising revenue for the third quarter of 2012 reached a new height. We believe that the continued rapid growth of the mobile advertising business benefited from the growth of the mobile Internet market in China, the increase in subscriber base of the 91 mobile platform and the Android mobile platform of the Group, as well as the Golden Touch* (點金) mobile

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advertising platform, a new independent advertising platform with built-in third-party applications launched by the Group. Looking forward, the Group will continue to invest in the advertising sales team, sales systems and the research and development of the targeted advertising platform, while expanding more third-party mobile distribution channels to provide support and driving power for the continued growth of the mobile advertising business.

The Group is optimistic about the expansion of the mobile Internet business in the PRC. For the future expansion of the mobile Internet business, subsidiaries of the Company which focused on this sector have commenced operations independently since April 2011.

On 10 February 2012, a subscription agreement (the “NetDragon (BVI) Subscription Agreement”) was entered into between NetDragon Websoft Inc. (“NetDragon (BVI)”), a subsidiary of the Company, and 91 Limited, a connected person of the Company under the Listing Rules. Pursuant to the NetDragon (BVI) Subscription Agreement, NetDragon (BVI) subscribed for, and 91 Limited issued and allotted, 2,403,750 Series B Preferred Shares (“Series B Preferred Shares”) for a total consideration of USD3,000,000. The preferred shares account for approximately 2.03% of the share capital of 91 Limited upon the full conversion of the preferred shares. The holders of the Series B Preferred Shares have the right to convert the Series B Preferred Shares to ordinary shares at the conversion price of USD1.2480499 upon (i) a qualified initial public offering; or (ii) the receipt by 91 Limited of conversion note from the holders of a majority of series A preferred shares (“Series A Preferred Shares”); or (iii) the receipt by 91 Limited of conversion note from the holders of more than two-thirds of the Series B Preferred Shares. 91 Limited has the right to redeem all Series B Preferred Shares at the redemption price of USD1.2480499 per Series B Preferred Share plus cumulative rate of return of 12% per annum and any declared but unpaid dividends on the Series B Preferred Shares after receipt of a written request signed by the holders of more than two-thirds of the Series B Preferred Shares at any time after the fourth anniversary of the issuance date of Series B Preferred Shares.

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

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

On 5 October 2012, 91 Limited, an indirect non-wholly owned subsidiary of the Company, entered into the a subscription agreement (the “Sino Coast Subscription Agreement”) with Sino Coast Developments Limited (“Sino Coast”), pursuant to which 91 Limited shall issue and allot, and Sino Coast shall subscribe for, 1,602,500 Series B Preferred Shares for a total consideration of USD2,000,000. The Series B Preferred Shares account for approximately 1.33% of the share capital of 91 Limited upon the full conversion of the preferred shares. The preferred shares shall automatically be converted into fully paid and non-assessable ordinary shares of 91 Limited immediately upon (i) the qualified initial public offering; or (ii) the receipt by 91 Limited of a written request for such conversion from the holders of a majority of Series A Preferred Shares then outstanding or the effective date for conversion specified in such request; or (iii) the receipt by 91 Limited of a written request for such conversion at any time from the holders of more than two-thirds of the Series B Preferred Shares then outstanding. 91 Limited will, following receipt at any time after the fourth anniversary of the original issue date of Series B Preferred Shares of a written request signed by holders of more than two-thirds of the Series B Preferred Shares then outstanding and subject to the memorandum and articles of association of 91 Limited, redeem all outstanding Series B Preferred Shares at the Redemption Price of USD1.2480499 per Series B Preferred Share plus cumulative rate of return of 12% per annum and any declared but unpaid dividends on the Series B Preferred Shares.

As of 12 October 2012, all conditions relating to subscription under the Sino Coast Subscription Agreement had been fulfilled and the completion of the Sino Coast Subscription Agreement (the “Completion”) took place. 91 Limited issued to Sino Coast a total of 1,602,500 Series B Preferred Shares and the total consideration of the Subscription Agreement had been received by 91 Limited.

Further details of the Sino Coast Subscription Agreement and the Completion are set out in the announcements of the Company dated 8 and 19 October 2012, respectively.

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 to catering for the demands of players on storyline setting, graphic style and

playing methods of new games by regulating the development process of various game projects during the period under review. It carried out initiatives to optimise the perspectives and planning of market forecast at the early development stage, identify development targets for each version of game projects and improve operating standards for projects which are subject to regular auditing. The above measures also helped optimize the cost structure of the Group and generate more profits from the future revenue growth.

The Group's lay-out for its mobile Internet business is expected to boost its rapid growth in 2012. The Group has also established a mobile Internet product project establishment process to standardize its project initiation application. With the favourable mobile Internet development in the PRC as well as the endeavours of the Group, the Group believes that the mobile Internet business will become another major source of growth apart from its online games.

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

As the research and development and communication zone and quality development zone of the Group, the first phase of the Project in the Haixi Animation Creativity City has completed construction for various major buildings such as the Group's office building and the Pentagonal Building* (五角大樓) with a gross floor area of approximately 20,000 sq.m. and has been put into use at present.

The second phase of the Project in the Haixi Animation Creativity City is the core research and development zone of the comic property of the Group with a total gross floor area of approximately 150,000 sq.m, among which TQ Building* (天晴樓), an important landmark building of the Company has completed construction. The park zone including the staff quarters, creativity museum, creativity pyramid, LOFT research and development studio is being constructed. Park landscape and greening projects are conducted simultaneously. It is expected that equipment commissioning in main buildings will be completed and delivered for use in the year, and structural works of other ancillary buildings will be basically completed. The whole park will be put into use by May next year.

In addition to the above industrial projects, the Group has also strengthened combination and planning for the upstream and downstream business development industry chains. The Group will also further invest in and build a series of related industry projects, mainly including supporting projects for the industry zone such as game intelligent terminals animation application project, urban complex project and five-star hotel. Currently, the above projects have entered the site selection phase, and work related to the land is being stepped up.

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As of 30 September 2012, the Group had capital commitments in relation to the development of the Project of approximately RMB267.7 million, in which the Group had settled approximately RMB184.9 million.

Other Events

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

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

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

As at 30 September 2012, the interests and short positions of the Directors and chief executives 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 Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 2)	The Company	Beneficial owner and through controlled corporations	259,325,592(L)	51.35%

Name of Director	Name of company	Capacity and nature of interests	Number of shares and underlying shares held or amount of registered capital contributed (Note 1)	Approximate percentage of shareholding
Liu Dejian (Note 3)	Fujian NetDragon Websoft Co. Ltd. (“NetDragon (Fujian)”)	Beneficial owner	RMB9,984,860(L)	98.86%
Liu Dejian (Note 3)	Shanghai Tiankun Digital Technology Ltd. (“NetDragon (Shanghai)”)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Liu Luyuan (Note 2)	The Company	Beneficial owner and through controlled corporations	259,125,592(L)	51.31%
Liu Luyuan (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%
Liu Luyuan (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui (Note 2)	The Company	Beneficial owner and through controlled corporations	257,725,592 (L)	51.04%
Zheng Hui (Note 3)	NetDragon (Fujian)	Beneficial owner	RMB9,984,860(L)	98.86%
Zheng Hui (Note 3)	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Chen Hongzhan (Note 4)	The Company	Beneficial owner and through a controlled corporation	13,103,000(L)	2.59%
Chao Guowei, Charles (Note 5)	The Company	Beneficial owner	997,019(L)	0.20%
Lee Kwan Hung (Note 5)	The Company	Beneficial owner	997,019(L)	0.20%
Liu Sai Keung, Thomas (Note 5)	The Company	Beneficial owner	997,019(L)	0.20%

Notes:

- The letter “L” denotes the shareholder’s long position in the shares, underlying shares and share capital of the relevant member of the Group.
- Liu Dejian is interested in 95.40% of the issued share capital of DJM Holding Ltd., which in turn is interested in 36.85% 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 5.22% of the issued share capital of the Company.

Zheng Hui is interested in 4.60% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 36.85% and 3.77%, 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 5.15% of the issued share capital of the Company.

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 shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 50.99% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company awarded 1,600,000 shares and 1,400,000 shares of the Company to Liu Dejian and Liu Luyuan, respectively. On 22 July 2011, the Company granted 284,000 share options to each of Liu Dejian, Liu Luyuan and Zheng Hui.

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of NetDragon (Fujian), which in turn is interested in 99.00% of the registered capital of NetDragon (Shanghai). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who has agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).
4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristonna Holdings Limited, which in turn is interested in 2.22% of the issued share capital of the Company. Chen Hongzhan had been awarded 1,600,000 shares of the Company on 7 December 2009 and granted 284,000 share options of the Company on 22 July 2011, which in total represent 0.37% of the issued share capital of the Company. Accordingly, Chen Hongzhan is deemed to be interested in 2.59% of the issued share capital of the Company through his shareholding in Cristonna 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 Sai Keung, Thomas. On 23 April 2012, the Company again granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.

Save as disclosed above, to the best knowledge of the Directors, as at 30 September 2012, none of the Directors and chief executives of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30 September 2012, 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)	36.85%
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)	15.51%
Ho Chi Sing <i>(Note 2)</i>	The Company	Through a controlled corporation	78,333,320(L)	15.51%
Zhou Quan <i>(Note 2)</i>	The Company	Through a controlled corporation	73,490,095(L)	14.55%
Eagle World International Inc. <i>(Note 3)</i>	The Company	Beneficial owner	25,996,992(L)	5.15%
Richmedia Holdings Limited	The Company	Beneficial owner	26,344,800(L)	5.22%
IDG Investors <i>(Note 4)</i>	91 Limited	Beneficial owner	19,390,250(L)	16.34%
NetDragon (BVI)	91 Limited	Beneficial owner	73,554,750(L)	62.03%

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 comprises 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 are as follows:
 - a) IDG Technology Venture Investments, L.P. is controlled by its sole general partner, IDG Technology Venture Investments, LLC, which in turn is controlled by its managing members, Zhou Quan and 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.. IDGAccel China Growth Fund GP Associates Ltd. is held as to 35% 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. Eagle World International Inc. is an investment holding company incorporated on 7 May 2007 in the British Virgin Islands with limited liability and is owned as to 100.00% by Flowson Company Limited.
4. The IDG Investors comprises 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 12.60%, 2.57% and 1.17%, respectively, in 91 Limited who are deemed to be acting in concert to acquire interests in 91 Limited, and its respective controlling entities. The controlling structure of each of the above partnerships is stated in *Note 2* above.
5. The 19,390,250 shares of 91 Limited held by IDG Investors were preferred shares comprising of 15,384,000 series A preferred shares and 4,006,250 series B preferred shares.
6. The 73,554,750 shares of 91 Limited held by NetDragon (BVI) comprised of 71,151,000 ordinary shares and 2,403,750 Series B Preferred Shares.

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 30 September 2012.

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 then existing share option scheme.

Details of the share options outstanding and movement during the nine months ended 30 September 2012 are as follows:

Grantee	Date of grant	Exercise Price HKD	As at 1 January 2012	Number of share options			As at 30 September 2012
				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	—	—	—	284,000
Chen Hongzhan	07.12.2009	4.33	1,600,000	—	—	—	1,600,000
	22.07.2011	4.60	284,000	—	—	—	284,000
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	400,000	—	—	—	400,000
	23.04.2012	5.74	—	400,000	—	—	400,000
Liu Sai Keung, Thomas	22.07.2011	4.60	400,000	—	—	—	400,000
	23.04.2012	5.74	—	400,000	—	—	400,000
Others							
Employees	07.12.2009	4.33	2,200,000	—	—	—	2,200,000
	28.04.2011	4.80	13,201,400	—	15,780	785,370	12,400,250
	22.07.2011	4.60	1,314,500	—	—	162,000	1,152,500
	23.04.2012	5.74	—	2,034,000	—	24,500	2,009,500
	06.07.2012	6.53	—	—	735,250	—	735,250
	12.09.2012	7.20	—	—	117,500	—	117,500
Total			<u>23,651,900</u>	<u>4,086,750</u>	<u>15,780</u>	<u>971,870</u>	<u>26,751,000</u>

Notes:

1. On 23 April 2012, 3,234,000 share options were granted to the Directors and employees of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 23 April 2012 (the trading day on the grant of the share options) was HKD5.61.
2. 735,250 share options and 117,500 share options were granted to the employees of the Company under the Main Board Share Option Scheme on 6 July 2012 and 12 September 2012 respectively. The closing price of the Company's shares on 6 July 2012 and 12 September 2012 (the trading day on the respectively grant of the share options) were HKD6.27 and HKD7.20 respectively.
3. During the period under review, no share options were exercised by any Directors or chief executive of the Company.

SHARE AWARD SCHEME

The Company

On 2 September 2008 (the "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 Adoption Date. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board under the NetDragon Share Award Scheme (but not counting any which have lapsed or have been forfeited) representing in aggregate over 10% of the issued capital of the Company as at the date of such grant.

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

As at 30 September 2012, total awarded amount (the "Awarded Amount") of HKD16,094,000 was awarded to a number of selected employees. The awarded shares, which purchased with the Awarded Amount and allocated by the Trustee from the total number of shares purchased by the Trustee on the market out of cash paid by the Company, will be transferred to the selected employees at nil consideration upon vesting between 6 November 2008 and 6 November 2012, 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.

91 Limited

On 28 December 2011, 91 Limited adopted a share award scheme (the “91 Share Award Scheme”) in which selected participants of 91 Limited and/or its subsidiaries are entitled to participate. Subject to early termination by the board of directors of 91 Limited, 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 Limited from time to time.

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

As at 30 September 2012, 2,981,300 awarded shares 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 upon vesting between 8 February 2012 and 7 June 2014. 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 Limited that all vesting conditions having been fulfilled, the award shares will be transferred to the selected participants at nil consideration upon vesting.

Best Assistant Education Online Limited (“Best Assistant”)

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

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

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

As at 30 September 2012, no awarded shares were granted under the Best Assistant Share Award Scheme.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE

The Company has applied the principles and complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the nine months ended 30 September 2012.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code under Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have confirmed that they have complied with the required standard of dealings as set out on the Model Code under Appendix 10 to the Listing Rules and the code of conduct of the Company regarding securities transactions by the Directors for the nine months ended 30 September 2012.

AUDIT COMMITTEE

In compliance with Rules 3.21 and 3.22 of the Listing Rules, the Company established the Audit Committee with written terms of reference. 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 comprises three members, Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas who are the independent non-executive Directors. Chao Guowei, Charles is the chairman of the Audit Committee.

The Group's unaudited consolidated financial results for the three months and nine months ended 30 September 2012 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2012, the Company repurchased a total of 9,635,500 shares on the Stock Exchange at an aggregate consideration of HKD61,878,555 before expenses.

Details of the share repurchase are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid HKD
		Highest HKD	Lowest HKD	
June 2012	<u>9,635,500</u>	<u>6.45</u>	<u>5.07</u>	<u>61,878,555</u>

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

Hong Kong, 23 November 2012

As at the date of this announcement, the Board comprises four executive Directors, namely Liu Dejian, Liu Luyuan, Zheng Hui and Chen Hongzhan; one non-executive Director, namely Lin Dongliang; and three independent non-executive Directors, namely Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas.