# 2012
# ANNUAL REPORT


## NETDRAGON WEBSOFT INC.
## 網龍網絡有限公司

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

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

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

## COMPLIANCE OFFICER

Mr. Liu Luyuan

## COMPANY SECRETARY

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

## QUALIFIED ACCOUNTANT

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## SHARE AWARD SCHEME COMMITTEE

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

## AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Ms. Tam Hon Shan, Celia

## HONG KONG LEGAL ADVISER

Sidley Austin

## PRC LEGAL ADVISER

Jingtian & Gongcheng

## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

# CORPORATE INFORMATION

## PRINCIPAL BANKERS

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## STOCK INFORMATION

Listing Place

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code

777

Listing Date

24 June 2008

Stock Name

NETDRAGON

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## COMPANY WEBSITE

www.nd.com.cn

# CORPORATE PROFILE

NetDragon Websoft Inc. ("NetDragon" or the "Company") was established in 1999 and has been one of the leading online game and mobile Internet application developers and operators in the People's Republic of China (the "PRC"). Its headquarters is located at Fuzhou City of Fujian Province of the PRC. NetDragon was transferred to the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 June 2008 by introduction (Main Board stock code of 00777.HK).

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

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

Since the commencement of mobile Internet sector in 2008, NetDragon has established highly professional teams of program development and business operation. Externally 91 Smartphone Apps Marketplaces, 91 Smartphone Apps* (91手機應用) and covering various mobile phone platforms like iOS, Android, Windows Phone, Symbian, etc. have been launched to the market. Our 91 Assistant*(91助手) (previously named as "91 PC Suite"), HiMarket*(安卓市場), 91 Panda Reader*(91熊貓看書), 91 Smartphone Platform*(91手機門戶) and HIAPK*(安卓網) are favourite products for the mobile users. 91 Assistant*(91助手) (previously named as "91 PC Suite") is one of the common management tools for current intelligence Smartphone users. HIAPK*(安卓網) has become one of the largest Android communities in the PRC. At the same time NetDragon is developing the SNS big community and will launch Gamecenter and open up SDK, in order to enrich our product lines with more favourable applications.

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

* *For identification purpose only*

# CORPORATE PROFILE

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

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

# GROUP FINANCIAL SUMMARY

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| **Revenue** | 595,981 | 621,836 | 531,772 | 760,974 | **1,108,349** |
| Cost of revenue | (68,017) | (84,325) | (66,333) | (75,032) | **(116,359)** |
| **Gross profit** | 527,964 | 537,511 | 465,439 | 685,942 | **991,990** |
| Other income and gains | 58,020 | 57,807 | 60,864 | 38,156 | **50,025** |
| Selling and marketing expenses | (103,599) | (133,460) | (101,993) | (140,340) | **(152,173)** |
| Administrative expenses | (112,673) | (163,926) | (182,022) | (210,941) | **(247,628)** |
| Development costs | (89,823) | (201,461) | (162,234) | (159,269) | **(204,173)** |
| Other expenses | (19,555) | (1,959) | (10,392) | (11,594) | **(27,214)** |
| Share of losses of associates | – | – | – | (581) | **(1,456)** |
| Share of losses of jointly controlled entities | (276) | (724) | – | – | **(1,391)** |
| **Operating profit** | 260,058 | 93,788 | 69,662 | 201,373 | **407,980** |
| Interest income on pledged bank deposit | – | – | – | – | **4,849** |
| Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares | – | – | – | – | **11,909** |
| Net gain (loss) on derivative financial instruments | 32,231 | (15,214) | – | (17,792) | **(282,424)** |
| Net (loss) gain on financial assets designated as fair value through profit or loss | (30,385) | 18,431 | – | – | **–** |
| Finance costs | – | – | – | (3,806) | **(28,417)** |
| **Profit before taxation** | 261,904 | 97,005 | 69,662 | 179,775 | **113,897** |
| Taxation | (22,635) | (10,381) | (34,769) | (44,532) | **(74,936)** |
| **Profit for the year** | 239,269 | 86,624 | 34,893 | 135,243 | **38,961** |

# GROUP FINANCIAL SUMMARY

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Attributable to: | | | | | |
| – Owners of the Company | 239,381 | 87,108 | 34,949 | 135,161 | **39,176** |
| – Non-controlling interests | (112) | (484) | (56) | 82 | **(215)** |
| Profit for the year | 239,269 | 86,624 | 34,893 | 135,243 | **38,961** |
| **Earnings per share** | | | | | |
| – Basic (RMB cents) | 44.49 | 16.57 | 6.64 | 25.85 | **7.71** |
| – Diluted (RMB cents) | 44.49 | 16.56 | 6.64 | 25.85 | **7.60** |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Non-current assets | 132,608 | 184,170 | 272,897 | 340,833 | **562,833** |
| Current assets | 1,387,802 | 1,367,941 | 1,287,043 | 1,555,987 | **1,882,520** |
| Non-current liabilities | — | — | — | (171,607) | **(516,085)** |
| Current liabilities | (66,599) | (96,290) | (108,783) | (226,319) | **(513,265)** |
| Non-controlling interests | — | 484 | 540 | 458 | **(22,154)** |
| Equity attributable to owners of the Company | 1,453,811 | 1,456,305 | 1,451,697 | 1,499,352 | **1,393,849** |

# CHAIRMAN'S STATEMENT


Dear shareholders,

On behalf of the board of directors of NetDragon (the "Board"), I am pleased to present the annual report of the Group for the year ended 31 December 2012.

## OUR MISSION

The Group is dedicated to continue to maintain its leading position in China's online games industry and becoming the most dynamic and enterprising leader in China's mobile Internet industry through encouraging innovation and diligence .

Leveraging our persistent attention to user demands and investment in resources consolidation and product innovation, the Group has grown into one of the most influential enterprises in China's mobile Internet industry since its introduction of mobile Internet business for years. The mobile products and services offered by the Company have been widely recognized by billions of smartphone users in China.

Meanwhile, the Group has over 13 years of experience in the online games industry in respect of independent research and development as well as operation of high quality online games. A range of original online games such as Eudemons Online (魔域) and Conquer Online (征服) have gained recognition from global game markets and players. Capitalizing on our strong research and development capability as well as game operation, we are always confident in achieving continuous success in the online games industry.

## OUR ACHIEVEMENTS

2012 was a milestone for NetDragon. Through the concerted efforts of our management and all staff, our mobile Internet business recorded rapid growth while our online games business maintained stable development. Total revenue of the Company for 2012 was over RMB1,108.3 million, an increase of approximately 45.6% as compared with 2011. The audited operating profit for 2012 was approximately RMB408.0 million, representing an increase of approximately 102.6% as compared with 2011. Profit attributable to the owners of the Company for 2012 were approximately RMB39.0 million, a decrease of approximately 71.2% as compared with 2011. The Group continued to maintain strong financial position with cash bank balances of approximately RMB1,731.3 million as at 31 December 2012, which will provide strong support for the healthy and sustainable development of the Group in future.

For our online game business, with overall slowing growth of domestic online game market, the Group's first strategy focus was to update the contents of classic game products in operation, and keep launching creative careers, playing methods etc. on the original basis to significantly enhance the playability and experience of games, so as to meet the changing needs of players. During the year under review, in response to the latest needs of players, new expansion packs for products such as Eudemons Online (魔域), Zero Online (機戰), Disney Fantasy Online (夢幻迪士尼) and Tou Ming Zhuang Online (投名狀OL) were timely launched and achieved expected results. Meanwhile, the Group continued to increase the emphasis on overseas markets, and launched the expansion pack "Invasion of Pirates"* (海盜來襲) for its main product, Conquer Online (征服), in English, French, Spanish, Arabian and traditional Chinese, hence securing the popularity of this game in overseas markets. Furthermore, expansion packs in English of "Catastrophe of the Worms"* (蟲族浩劫) and "Cult of the Shadow Sun"* (末日亡靈) for the Group's products such as Zero Online (機戰) and Eudemons Online (魔域) respectively were launched in 2012. Generally speaking, the Group's revenue from games remained stable and amounted to RMB825.7 million for the whole of 2012, representing an increase of 17.7% over 2011.

In the meantime, the Group will continue to develop new business for its long term development. The Haixi Animation Creativity City (海西動漫創意之都) has been listed as a key project under construction in Fujian Province for 2013, and TQ Building* (天晴樓), the landmark in phase I and II, and the related supporting facilities will be put into formal use in 2013. The 91 Home Furnishing in PC version and mobile version (91家居PC版和移動版), a platform application project which aims at combining IT-based thoughts and technologies and relaxed online game experience with traditional home furnishing industrial chain, has been put into trial operation and received a certain degree of market recognition. Projects such as 91 Application Center for Children (91兒童應用中心) which focuses on infants and children sub-market are developing rapidly.

* For identification purpose only

# CHAIRMAN'S STATEMENT

## OUR FUTURE

Looking ahead, the Group will better allocate and focus resources and energies through active strategic adjustment to our existing structure, so as to lay a more solid foundation for the development of our online game and mobile Internet businesses.

Meanwhile, NetDragon will continuously devote its energies and resources to the research, development and operation of all kinds of high quality original online games for game players in the world. Apart from continuous content updating of products already operated, in terms of game product reserve, internal testing has been carried out for the first fantasy style ARPG Age of Egmont (獵龍戰記) (formerly known as Age of Emblem (紋章物語)) developed by the Group, and games such as Crazy Tribes (瘋狂部落) and COS (英魂之刃) are expected to be launched in 2013, which will inject new blood into the product lines of our games.

Recently, the Company's application for spin-off and separate listing of mobile Internet business has been submitted to the Stock Exchange. In the future, 91 Wireless Websoft Limited ("91 Wireless") (formerly known as 91 Limited) is expected to leverage its advantages resulting from the listing to give full play to its rich experiences accumulated in areas such as mobile product R&D and Smartphone platform operations, so as to further accelerate its expansion in the field of mobile Internet business and continuously scale up the smartphone platform. Through independent development and win-win cooperation with upstream and downstream industrial chains, 91 Wireless will enhance the contents of platforms and build a highly cohesive mobile Internet community for smartphone users, hence ensuring its leading position in China's mobile Internet industry.

The Group will also firmly grasp all kinds of opportunities in the Internet industries at home and abroad, and capitalize on its keen market sense and strong financial strength to timely launch more quality projects with market potentials, thereby driving the continuous sustainable development of the Group.

In view of the above, the management has full confidence in the Group's short-term growth as well as long term sustainable development.

# CHAIRMAN'S STATEMENT

## DIVIDEND

The Board has proposed to distribute a final dividend of HKD0.2 per share for the financial year ended 31 December 2012.

## APPRECIATION

I would like to thank our management and staff for their dedication in 2012. And last but not least, I wish to express my sincerest gratitude to our shareholders and investors for your continuing support to NetDragon.

**Liu Dejian**
*Chairman*

Hong Kong, 27 March 2013


魔域

# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) INDUSTRY REVIEW

### CHINA ONLINE GAME INDUSTRY

In 2012, the overall China online game industry sustained a sound development trend. According to the data in the "2012 China Game Industry Report" released by the Game Industry Annual Conference 2012, the number of online game users, webgame users and mobile game users in China in 2012 were 140 million[1], 271 million[1] and 89 million[1], respectively, representing a growth rate of 12.5 %[1], 33.4%[1] and 73.7%[1], respectively, year-on-year. The number of online game paying users totaled 9.594 million[1], representing a growth rate of 35.1%[1] year-on-year. In 2012, the actual sales revenue of the China game market amounted to RMB60.28 billion[1], representing a growth rate of 35.1%[1] year-on-year.

Although growth rate had slowed down by a certain extent compared to the past as the industry became more mature, it still demonstrated a healthy development momentum. The sales revenue of traditional online games increased steadily, which still accounted for almost half of the online game market. The mobile Internet games also began to show its power gradually, which was evidenced by the rapid soaring in sales revenue and the successive emergence of various high quality products with remarkable monthly revenue.

For online games, although the growth rate slowed down, they were still the dominant profit-maker in the online game market of China. Given the slowing growth rate, all major game makers have been actively seeking for counter measures and put in more innovative efforts on products and operations. However, in the short term, certain difficulties still exist in attracting new users for game products. Some new game products have failed to perform as expected in achieving high revenue growth, and a number of classic online games operated over years were still the main force supporting the existing game market. As a result, the major task for many game makers of the industry in future will be maintaining classic products' attraction to users while procuring new customer sources.

For web games, 2012 saw the rise in web game products in China, with increasing number of users and a general trend of web game product upgrading. The gap between web games and online games in terms of performance and contents was narrowing. The rapid growth of web games was due to wide user exposure. Various websites, Internet software services providers and telecommunication operators have participated in the import of web games to users, greatly expanding the user base and increasing the probability of user access to web games. As the number of users and the market size increased, the quality of web games also improved significantly. Several games with playing methods and average standard of performance close to 2D online games launched successively and became the focus of the web game market. Some of these games were star products with monthly turnover of more than ten thousand. Lightweight online games represented by web games were in rapid development, especially feature web games, which approximated online games in the forms and contents and quality of products, is expected to drive the development of China's online game industry as a whole.

# MANAGEMENT DISCUSSION AND ANALYSIS

While web games were greatly sought after by the market and recorded high growth rate, mobile phone games also took the pace. In 2012, under the general environment where the mobile Internet market performed well as a whole, mobile phone games started to pick up in full force. Several mobile phone games with good performance were launched to the market, bringing unprecedented Internet entertainment experience for the players. Seeing a huge blue ocean of market opportunities for mobile phone games, certain major online game manufacturers successively rolled out mobile phone game projects.

Meanwhile, facing the general downturn of global economic conditions, online games originated in China reversed this unfavorable trend in 2012 and recorded growth in the overseas markets while maintaining a sound development trend. According to the data of the "2012 Overseas Market Report on the China Game Industry", over 40② game enterprises in China and 177② original online games from China penetrated into the overseas markets in 2012, with an actual sales revenue of USD570 million②, representing an increase of 57.5%② year-on-year. To date, the revenue generated by original online games from China in the overseas market has achieved increases for three consecutive years, representing a year-on-year growth rate of 111%② in 2010 as compared to 2009, a growth rate of 56.5%② in 2011 as compared to 2010 and a growth rate of 57.5%② in 2012 as compared to 2011.

In general, the remarkable growth rate and expanding size of the online game industry in China will have increasing influence on the contemporary social and economic development and cultural life in China, which no doubt will form an integral part of the cultural creative industry in China. For the next five years, it is expected that the compound annual growth rate of the China game market will reach 12.3%②, and it will gradually enter the fast lane of developing self-owned brands.

*Sources:*

① *2012 Report on the China Game Industry (2012年中國遊戲產業報告), China Game Publication Association, CGPA*

② *2012 Overseas Market Report on the China Game Industry (2012年中國遊戲產業海外市場報告), China Game Publication Association, CGPA*

# MANAGEMENT DISCUSSION AND ANALYSIS

## CHINA'S MOBILE INTERNET INDUSTRY

In 2012, China's mobile Internet industry continued its rapid development trend, with various significant indicators such as numbers of users, application level, popularity of terminal devices and market scale achieving drastic growth, under the synergistic effects of numerous favorable factors. Driven by the generally promising market environment, a number of mobile Internet players seized the strategic opportunistic period to expand their presence in the PRC mobile Internet market, and as a result, new competitive landscape and barriers are building up in this emerging industry.

According to the research report of CNNIC, as at the end of December 2012, the number of netizens (refer to Internet citizens) surfing the Internet via mobile phones reached 420 million[①], accounting for 74.5%[①] of the total netizens in China as compared with 69.3%[①] recorded last year, which further strengthened the position of China as the largest market of online terminal devices. The fact that the number of users for mobile Internet is higher than that for traditional Internet users is leading to profound changes in the landscape of Internet market. The statistics from the Ministry of Industry and Information Technology of the PRC also indicated that, as at the end of November 2012, there were over 220 million[①] 3G users among mobile users, with 3G user penetration rate at 20%[①]. The continuous improvement in the basic service level has reinforced a solid foundation for the development of the mobile Internet industry in China.

Under the guidance of open platforms and App stores, the value of China's mobile Internet industry in various fields, including games, electronic business, search, music, reading, location services and local life, was increasingly prominent in 2012. As major mobile Internet players continued to open up the mobile microblog platform, mobile search platform, mobile electronic business platform, mobile open payment platform and mobile tools platform, win-win cooperation among platforms through platform opening and introduction of partners, together with the heavy users, became the mainstream model for China's mobile Internet business and growth in 2012.

In 2012, there were over 730,000[①] applications in Apple App Store and there were 700,000[①] applications for Google Play. Microsoft authorized and released over 75,000[①] new applications and games in 2012. In the domestic market, there were almost 150,000[①] applications on MM platform of China Mobile and over 3,700,000[①] registered developers. The third-party App stores, represented typically by 91 Assistant* (91助手) (previously named as "91 PC Suite") and HiMarket* (安卓市場), also experienced booming development. App stores are evolving gradually into a principal market for mobile Internet applications and the significant role of developing strong mobile internet drivers becomes increasingly important.

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

Generally, the ecosystem of China's mobile Internet industry mainly comprising terminal devices, platforms and services has achieved comprehensive development in 2012, resulting in profound changes in the overall landscape of China's Internet industry. The continuous emergence of new service forms, new business models and new technologies, together with their deep convergence with new applications such as big data and cloud computing, will spawn more creative business models, and resulting in more significant impacts on the Internet industry as well as social economic development. Meanwhile, the online behavior of the enormous size of netizens in China and their lifestyle are experiencing irreversible changes. These will ultimately bring about more room for imaginative development in China's mobile Internet industry.

*Source:*

① *CNNIC The 31st Statistical Report on Internet Development in China (第31次中國互聯網路發展狀況統計報告)*

## (2) OPERATION INFORMATION

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

| | Three months ended | | | | |
|---|---|---|---|---|---|
| | **31 December 2012** | 30 September 2012 | 30 June 2012 | 31 March 2012 | 31 December 2011 |
| **PCU** | **521,000** | 525,000 | 582,000 | 600,000 | 612,000 |
| **ACU** | **287,000** | 281,000 | 307,000 | 297,000 | 310,000 |

*Note:* As at 31 December 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 521,000 for the three months ended 31 December 2012, representing a decrease of approximately 0.8% from the three months ended 30 September 2012 and representing a decrease of approximately 14.9% from the three months ended 31 December 2011.

We also recorded the ACU for online game of approximately 287,000 for the three months ended 31 December 2012, which represented an increase of approximately 2.1% from the three months ended 30 September 2012 and represented a decrease of approximately 7.4% from the three months ended 31 December 2011.

## (3) FINANCIAL PERFORMANCE HIGHLIGHTS

YEAR ENDED 31 DECEMBER 2012

The following table sets forth the comparative figures for the years ended 31 December 2012 and 2011:

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| **Revenue** | **1,108,349** | 760,974 |
| Cost of revenue | **(116,359)** | (75,032) |
| Gross profit | **991,990** | 685,942 |
| Other income and gains | **50,025** | 38,156 |
| Selling and marketing expenses | **(152,173)** | (140,340) |
| Administrative expenses | **(247,628)** | (210,941) |
| Development costs | **(204,173)** | (159,269) |
| Other expenses | **(27,214)** | (11,594) |
| Share of losses of associates | **(1,456)** | (581) |
| Share of loss of a jointly controlled entity | **(1,391)** | – |
| **Operating profit** | **407,980** | 201,373 |
| Interest income on pledged bank deposit | **4,849** | – |
| Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares | **11,909** | – |
| Net loss on derivative financial instruments | **(282,424)** | (17,792) |
| Finance costs | **(28,417)** | (3,806) |
| **Profit before taxation** | **113,897** | 179,775 |
| Taxation | **(74,936)** | (44,532) |
| **Profit for the year** | **38,961** | 135,243 |
| Profit for the year attributable to: | | |
| – Owners of the Company | **39,176** | 135,161 |
| – Non-controlling interests | **(215)** | 82 |
| | **38,961** | 135,243 |

**Revenue**

In the third quarter of 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 year ended 31 December 2012. The comparative figure had not been restated because it is insignificant.

Revenue for the year ended 31 December 2012 was approximately RMB1,108.3 million, representing (an increase) of approximately 45.6% as compared to approximately RMB761.0 million for the year ended 31 December 2011.

*Online game*

Our online game revenue for the year ended 31 December 2012 was approximately RMB825.7 million, representing an increase of approximately 17.7% as compared to approximately RMB701.6 million for the year ended 31 December 2011.

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **% of online game revenue** | RMB'000 | % of online game revenue |
| **PRC** | **717,048** | **86.8** | 572,470 | 81.6 |
| **Overseas** | **108,696** | **13.2** | 129,095 | 18.4 |
| | **825,744** | **100.0** | 701,565 | 100.0 |

The Group's online game revenue analysed by geographical segments is based on the location where services are provided. The online game revenue derived from the PRC for the year ended 31 December 2012 was approximately RMB717.0 million, representing an increase of approximately 25.3% over the year ended 31 December 2011.

手机助手
未登陆
开始页面
欢迎使用
文件管理
程序管理
图片管理
我的文档
短信聊天
关闭手机
软件推荐
电影推荐
图书杂志
熊猫看书 (Panda Reader)
91来电秀 V2.3.0
详细

# MANAGEMENT DISCUSSION AND ANALYSIS

The online game revenue derived from overseas markets for the year ended 31 December 2012 was approximately RMB108.7 million, representing a decrease of approximately 15.8% over the year ended 31 December 2011.

*Mobile Internet business*

The mobile Internet business revenue for the year ended 31 December 2012 was approximately RMB282.6 million, representing an increase of approximately 375.7% as compared to approximately RMB59.4 million for the year ended 31 December 2011.

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

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **% of mobile Internet business revenue** | RMB'000 | % of mobile Internet business revenue |
| **PRC** | **277,323** | **98.1** | 59,409 | 100.0 |
| **Overseas** | **5,282** | **1.9** | – | – |
| | **282,605** | **100.0** | 59,409 | 100.0 |

The mobile Internet business revenue derived from the PRC for the year ended 31 December 2012 was approximately RMB277.3 million, representing an increase of approximately 366.8% over the year ended 31 December 2011.

The mobile Internet business revenue derived from overseas markets for the year ended 31 December 2012 was approximately RMB5.3 million.

## Fourth Quarter of 2012

### Revenue

Revenue for the fourth quarter of 2012 was approximately RMB331.0 million representing an increase of approximately 14.1% from the third quarter of 2012 and an increase of approximately 52.4% over the same period in 2011.

The online game revenue for the fourth quarter of 2012 was approximately RMB229.1 million, representing an increase of approximately 12.3% from the third quarter of 2012 and an increase of approximately 19.0% over the same period in 2011.

The mobile Internet business revenue for the fourth quarter of 2012 was approximately RMB101.9 million, representing an increase of approximately 18.4% from the third quarter of 2012 and an increase of approximately 313.3% over the same period in 2011.

**Cost of revenue**

Cost of revenue for the fourth quarter of 2012 was approximately RMB34.2 million, representing a decrease of approximately 8.4% from the third quarter of 2012 and an increase of approximately 20.8% over the same period in 2011.

**Other income and gains**

Other income and gains of approximately RMB17.5 million were recorded for the fourth quarter of 2012, compared to other income and gains that of approximately RMB17.3 million and approximately RMB17.4 million for the third quarter of 2012 and the same period in 2011, respectively.

**Selling and marketing expenses**

Selling and marketing expenses for the fourth quarter of 2012 were approximately RMB44.2 million, representing an increase of approximately 18.3% from the third quarter of 2012 and a decrease of approximately 4.4% over the same period in 2011.

**Administrative expenses**

Administrative expenses for the fourth quarter of 2012 were approximately RMB82.9 million, representing an increase of approximately 60.7% from the third quarter of 2012 and representing an increase of approximately 39.2% over the same period in 2011.

**Development costs**

Development costs for the fourth quarter of 2012 were approximately RMB62.0 million, representing an increase of approximately 34.1% from the third quarter of 2012 and an increase of approximately 30.8% over the same period in 2011.


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**Other expenses**

Other expenses for the fourth quarter of 2012 were approximately RMB2.9 million, representing a decrease of approximately 61.8% from the third quarter of 2012 and a decrease of approximately 42.5% over the same period in 2011.

**Net loss on derivative financial instruments**

Net loss on derivative financial instruments for the fourth quarter of 2012 was approximately RMB243.6 million, representing an increase of approximately 1,474.3% from the third quarter of 2012 and an increase of approximately 1,285.6% over the same period in 2011.

**Finance costs**

Finance costs for the fourth quarter of 2012 were approximately RMB12.5 million, representing an increase of approximately 84.0% from the third quarter of 2012 and an increase of approximately 259.5% over the same period in 2011.

**(Loss) profit for the period**

Loss for the period for the fourth quarter of 2012 was approximately RMB157.2 million, however, profit for the third quarter of 2012 and fourth quarter of 2011 was RMB95.3 million and RMB7.7 million, respectively.

**(Loss) profit for the period attributable to the owners of the Company**

Loss for the period attributable to the owners of the Company for the fourth quarter of 2012 was approximately RMB157.0 million, however, profit for the third quarter of 2012 and fourth quarter of 2011 attributable to the owners of the Company was RMB95.4 million and RMB7.9 million, respectively.

## (4) FINANCIAL REVIEW

**Fourth Quarter of 2012 Compared to Third Quarter of 2012**

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

| | Three months ended | |
|---|---|---|
| | **31 December 2012 (Unaudited) RMB'000** | 30 September 2012 (Unaudited) RMB'000 |
| **Revenue** | **331,046** | 290,144 |
| Cost of revenue | **(34,217)** | (37,358) |
| Gross profit | **296,829** | 252,786 |
| Other income and gains | **17,536** | 17,322 |
| Selling and marketing expenses | **(44,220)** | (37,388) |
| Administrative expenses | **(82,883)** | (51,564) |
| Development costs | **(61,992)** | (46,231) |
| Other expenses | **(2,902)** | (7,604) |
| Share of losses of associates | **(435)** | (363) |
| Share of loss of a jointly controlled entity | **(1,391)** | – |
| **Operating profit** | **120,542** | 126,958 |
| Interest income on pledged bank deposit | **2,249** | 2,600 |
| Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares | **7,098** | 6,234 |
| Net loss on derivative financial instruments | **(243,611)** | (15,474) |
| Finance costs | **(12,548)** | (6,821) |
| **(Loss) profit before taxation** | **(126,270)** | 113,497 |
| Taxation | **(30,912)** | (18,212) |
| **(Loss) profit for the period** | **(157,182)** | 95,285 |
| (Loss) profit for the period attributable to: | | |
| – Owners of the Company | **(157,025)** | 95,399 |
| – Non-controlling interests | **(157)** | (114) |
| | **(157,182)** | 95,285 |

## Revenue

Our revenue for the three months ended 31 December 2012 was approximately RMB331.0 million, representing an increase of approximately 14.1% as compared to approximately RMB290.1 million for the three months ended 30 September 2012.

*Online game*

Our online game revenue for the three months ended 31 December 2012 was approximately RMB229.1 million, representing an increase of approximately 12.3% as compared to approximately RMB204.1 million for the three months ended 30 September 2012.

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

| | **Three months ended** | | | |
|---|---|---|---|---|
| | **31 December 2012** | | 30 September 2012 | |
| | **RMB'000** | **% of online game revenue** | RMB'000 | % of online game revenue |
| **PRC** | **202,520** | **88.4** | 175,420 | 86.0 |
| **Overseas** | **26,584** | **11.6** | 28,647 | 14.0 |
| | **229,104** | **100.0** | 204,067 | 100.0 |

The online game revenue derived from the PRC for the three months ended 31 December 2012 was approximately RMB202.5 million, representing an increase of approximately 15.4% as compared to approximately RMB175.4 million for the three months ended 30 September 2012. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from Eudemons Online in the fourth quarter of 2012.

The online game revenue derived from overseas markets for the three months ended 31 December 2012 was approximately RMB26.6 million, representing a decrease of approximately 7.2% as compared to approximately RMB28.6 million for the three months ended 30 September 2012. The decrease in online game revenue derived from overseas markets was mainly due to decrease in revenue from Conquer Online for the three months ended 31 December 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

*Mobile Internet business*

The mobile Internet business revenue for the three months ended 31 December 2012 was approximately RMB101.9 million, representing an increase of approximately 18.4% as compared to approximately RMB86.1 million for the three months ended 30 September 2012. The increase was mainly contributed by the increase of mobile advertising revenue due to its increase in the overall popularity.

## Cost of revenue

Cost of revenue for the three months ended 31 December 2012 was approximately RMB34.2 million, representing a decrease of approximately 8.4% as compared to approximately RMB37.4 million for the three months ended 30 September 2012. The decrease was mainly due to offset of (i) the increase in transaction handling fees and server leasing costs of mobile Internet business; and (ii) the decrease in message service fees.

The total cost of revenue of mobile Internet business for the three months ended 31 December 2012 and 30 September 2012 was approximately RMB16.5 million and approximately RMB24.9 million, respectively.

## Gross profit

Our gross profit for the three months ended 31 December 2012 was approximately RMB296.8 million, representing an increase of approximately 17.4% as compared to approximately RMB252.8 million for the three months ended 30 September 2012.

The gross profit margin for the three months ended 31 December 2012 was approximately 89.7%, which represented an increase of approximately 2.6% as compared with the three months ended 30 September 2012.

## Other income and gains

Other income and gains for the three months ended 31 December, 2012 were approximately RMB17.5 million, keeping a steady level as compared with the three months ended 30 September 2012. The steady level in other income and gains was mainly due to offset of (i) the increase in government grant received from Ministry of Finance of Ma Wei Qu*（馬尾區財政局）, Ministry of Finance of the People's Republic of China（中華人民共和國財政部）, Ministry of Finance of Fu Zhou Shi*（福州市財政局） and Fujian Provincial Department of Finance（福建省財政廳）; and (ii) the decrease in interest income.

* *For identification purpose only*

**Selling and marketing expenses**

Selling and marketing expenses for the three months ended 31 December 2012 were approximately RMB44.2 million, representing an increase of approximately 18.3% as compared with the three months ended 30 September 2012. The increase in the amount of selling and marketing expenses was mainly due to offset of (i) the increase of staff costs; (ii) the increase in promotion activities for mobile Internet business; (iii) the decrease of advertising expenses for Dungeon Keeper™ Online, Conquer Online and Eudemons Online; and (iv) the decrease in consulting fee.

As at 31 December 2012, the number of selling and marketing staff in the mobile Internet business was 303, which has increased by approximately 1.7%, as compared with the number of staff as at 30 September 2012. The selling and marketing expenses of mobile Internet business for the three months ended 31 December 2012 were approximately RMB18.0 million.

**Administrative expenses**

Administrative expenses increased by approximately 60.7% to approximately RMB82.9 million for the three months ended 31 December 2012 as compared with the three months ended 30 September 2012, which was mainly due to (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; and (ii) the increase in legal and professional fee for proposed spin-off of 91 Wireless.

As at 31 December 2012, the total number of accounting, finance and general administration staff in the mobile Internet business was 60, which was increased by approximately 3.4%, as compared with the number of staff as at 30 September 2012. The total administrative expenses of mobile Internet business for the three months ended 31 December 2012 were approximately RMB23.4 million.

**Development costs**

Development costs increased by approximately 34.1% to approximately RMB62.0 million for the three months ended 31 December 2012 as compared with the three months ended 30 September 2012. The increase in the amount of development costs was mainly caused by the performance rewards being given to staff with outstanding performance increased.

As at 31 December 2012, the total number of research and development staff in the mobile Internet business was 557, which was increased by approximately 0.5%, as compared with the number of staff as at 30 September 2012. The total development costs of mobile Internet business for the three months ended 31 December 2012 were approximately RMB22.5 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Other expenses**

Other expenses for the three months ended 31 December 2012 were approximately RMB2.9 million, representing a decrease of approximately 61.8% as compared with three months ended 30 September 2012. The decrease in other expenses was mainly due to (i) the decrease in allowances on trade receivables; (ii) the decrease in donation; and (iii) the decrease in business tax for inter-group transactions.

**Net loss on derivative financial instruments**

Net loss on derivative financial instruments increased by approximately 1,474.3% to approximately RMB243.6 million for the three months ended 31 December 2012 as compared with the three months ended 30 September 2012, which was mainly 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.

**Finance costs**

Finance costs increased by approximately 84.0% to approximately RMB12.5 million for the three months ended 31 December 2012 as compared with the three months ended 30 September 2012, which was due to the increase in interest expenses on the liability component of the redeemable convertible preferred shares.

**Taxation**

Taxation for the three months ended 31 December 2012 was approximately RMB30.9 million, which raised by approximately 69.7% as compared with the three months ended 30 September 2012. The increase as compared with the three months ended 30 September 2012 was mainly due to (i) the increase in recognition of withholding tax for dividend declared by a subsidiary; and (ii) the increase in deferred tax.

**(Loss) profit for the period attributable to the owners of the Company**

Loss for the period attributable to the owners of the Company for the three months ended 31 December 2012 was approximately RMB157.0 million as compared with profit approximately RMB95.4 million for the three months ended 30 September 2012.

**Fourth Quarter of 2012 Compared to Fourth Quarter of 2011**

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

| | **Three months ended** | |
|---|---|---|
| | **31 December 2012 (Unaudited) RMB'000** | 31 December 2011 (Unaudited) RMB'000 |
| **Revenue** | **331,046** | 217,176 |
| Cost of revenue | **(34,217)** | (28,337) |
| Gross profit | **296,829** | 188,839 |
| Other income and gains | **17,536** | 17,369 |
| Selling and marketing expenses | **(44,220)** | (46,277) |
| Administrative expenses | **(82,883)** | (59,529) |
| Development costs | **(61,992)** | (47,387) |
| Other expenses | **(2,902)** | (5,047) |
| Share of losses of associates | **(435)** | (439) |
| Share of loss of a jointly controlled entity | **(1,391)** | – |
| **Operating profit** | **120,542** | 47,529 |
| Interest income on pledged bank deposit | **2,249** | – |
| Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares | **7,098** | – |
| Net loss on derivative financial instruments | **(243,611)** | (17,582) |
| Finance costs | **(12,548)** | (3,490) |
| **(Loss) profit before taxation** | **(126,270)** | 26,457 |
| Taxation | **(30,912)** | (18,710) |
| **(Loss) profit for the period** | **(157,182)** | 7,747 |
| (Loss) profit for the period attributable to: | | |
| – Owners of the Company | **(157,025)** | 7,861 |
| – Non-controlling interests | **(157)** | (114) |
| | **(157,182)** | 7,747 |

**Revenue**

Our revenue for the three months ended 31 December 2012 was approximately RMB331.0 million, representing an increase of approximately 52.4% as compared to approximately RMB217.2 million for the three months ended 31 December 2011.

*Online game*

Our online game revenue for the three months ended 31 December 2012 was approximately RMB229.1 million, representing an increase of approximately 19.0% as compared to approximately RMB192.5 million for the three months ended 31 December 2011.

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

| | Three months ended | | | |
|---|---|---|---|---|
| | **31 December 2012** | | 31 December 2011 | |
| | **RMB'000** | **% of online game revenue** | RMB'000 | % of online game revenue |
| **PRC** | **202,520** | **88.4** | 164,209 | 85.3 |
| **Overseas** | **26,584** | **11.6** | 28,304 | 14.7 |
| | **229,104** | **100.0** | 192,513 | 100.0 |

The online game revenue derived from the PRC for the three months ended 31 December 2012 was approximately RMB202.5 million, representing an increase of approximately 23.3% as compared to approximately RMB164.2 million for the three months ended 31 December 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 31 December 2012 amounted to approximately RMB26.6 million, representing a decrease of approximately 6.1% as compared with that of approximately RMB28.3 million for the three months ended 31 December 2011.

*Mobile Internet business*

The mobile Internet business revenue for the three months ended 31 December 2012 was approximately RMB101.9 million, representing an increase of approximately 313.3% as compared to approximately RMB24.7 million for the three months ended 31 December 2011. The increase was mainly contributed by (i) the increase of mobile advertising revenue due to the expansion of business networks; and (ii) the increase of mobile game revenue due to its increase in its overall popularity.

### Cost of revenue

Cost of revenue for the three months ended 31 December 2012 increased by approximately 20.8% to approximately RMB34.2 million as compared with that of approximately RMB28.3 million for the three months ended 31 December 2011. The increase was mainly due to offset of (i) the decrease in cooperation fees of mobile Internet business; and (ii) the increase in transaction handling fee and message service fee due to the expansion of mobile Internet business.

### Gross profit

Our gross profit for the three months ended 31 December 2012 was approximately RMB296.8 million, representing an increase of approximately 57.2% as compared to approximately RMB188.8 million for the three months ended 31 December 2011.

However, the gross profit margin for the three months ended 31 December 2012 was approximately 89.7%, which represented an increase of approximately 2.7% as compared with the three months ended 31 December 2011.

### Other income and gains

Other income and gains for the three months ended 31 December 2012 were approximately RMB17.5 million, keeping a steady level as compared with the three months ended 31 December 2011. The steady level in other income and gains was mainly due to offset of (i) the increase in interest income; and (ii) the decrease in government grant income.

### Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2012 decreased by approximately 4.4% to approximately RMB44.2 million as compared with the three months ended 31 December 2011. The decrease in selling and marketing expenses was mainly due to offset of (i) decrease in advertising and promotion activities for Eudemons Online, Conquer Online, Dungeon Keeper™ Online and mobile Internet business; (ii) increase in staff costs related to recruiting experienced staff to strengthen the mobile Internet business operations and development; (iii) increase in expenditures of share-based payments for the grant of share options as incentives in order to retain certain eligible participants for the contribution of the continuing operation and development of the Group; and (iv) decrease in consulting fee.

As at 31 December 2012, the number of selling and marketing staff in the mobile Internet business was 303, which was increased by approximately 146.3%, as compared with the number of staff as at 31 December 2011. The selling and marketing expenses of mobile Internet business for the three months ended 31 December 2012 were approximately RMB18.0 million.

### Administrative expenses

Administrative expenses increased by approximately 39.2% to approximately RMB82.9 million for the three months ended 31 December 2012 as compared with the three months ended 31 December 2011. The increase in administrative expenses was mainly due to (i) the rise in legal and professional fee for proposed spin-off of 91 Wireless Websoft Limited; and (ii) the increase in expenditures of share-based payments for the grant of share options and share awards to certain eligible participants as incentives in order to retain them for the contribution of the continuing operation and development of the Group.

As at 31 December 2012, the total number of accounting, finance and general administration staff in the mobile Internet business was 60, which was increased by approximately 42.9%, as compared with the number of staff as at 31 December 2011. The administrative expenses of mobile Internet business for the three months ended 31 December 2012 were approximately RMB23.4 million.

### Development costs

Development costs increased by approximately 30.8% to approximately RMB62.0 million for the three months ended 31 December 2012 as compared with the three months ended 31 December 2011. The increase in the amount of development costs was mainly caused by (i) the increase of staff costs in order to retain employees for the contribution of the continuing operation and development of the Group; and (ii) the increase in outsource service fees.

As at 31 December 2012, the total number of research and development staff in the mobile Internet business was 557, which was increased by approximately 141.1%, as compared with the number of staff as at 31 December 2011. The total development costs of mobile Internet business for the three months ended 31 December 2012 were approximately RMB22.5 million.

### Other expenses

Other expenses for the three months ended 31 December 2012 were approximately RMB2.9 million, which represented a decrease of approximately 42.5% as compared with the three months ended 31 December 2011. The decrease in the amount of other expenses was mainly caused by the decline in donation and the decrease in business tax for inter-group transactions.

### Net loss on derivative financial instruments

Net loss on derivative financial instruments increased by approximately 1,285.6% to approximately RMB243.6 million for the three months ended 31 December 2012 as compared with the three months ended 31 December 2011, which was mainly 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.

**Finance costs**

Finance costs increased by approximately 259.5% to approximately RMB12.5 million for the three months ended 31 December 2012 as compared with the three months ended 31 December 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 31 December 2012 rised by approximately 65.2% as compared with the three months ended 31 December 2011. The increase was due to the increase in taxable profit, withholding tax on dividend and deferred tax.

**(Loss) profit attributable to the owners of the Company**

Loss for the period attributable to the owners of the Company for the three months ended 31 December 2012 was approximately RMB157.0 million, however, profit attributable to the owners of the Company for the three months ended 31 December 2011 was RMB7.9 million.

## (5) NON-GAAP FINANCIAL MEASURES

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

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

| | **Year ended** | | **Three months ended** | | |
|---|---|---|---|---|---|
| | **31 December 2012 RMB'000** | 31 December 2011 RMB'000 | **31 December 2012 RMB'000** | 30 September 2012 RMB'000 | 31 December 2011 RMB'000 |
| Non-GAAP operating profit | **442,713** | 211,458 | **138,555** | 132,231 | 57,290 |
| Non-GAAP profit | **367,777** | 166,926 | **107,643** | 114,019 | 21,437 |
| Non-GAAP profit attributable to owners of the Company | **367,992** | 166,844 | **107,800** | 114,133 | 21,551 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## (6) BUSINESS REVIEW AND PROSPECTS

### BUSINESS REVIEW

During the year under review, the Group continued its effort on maintaining its leading position in the PRC online game industry, persistently followed the strategy of strengthening the game development and operation capability of its core business, with the aim to grasping timely upcoming market opportunities of online game industry in the PRC and overseas.

The Group followed the growing trend of PRC mobile Internet industry, continued to concentrate on developing mobile Internet business, and put in effort to make it become another new business growth point in addition to online game.

### Launching of new games

During the year under review, the Group, based on its strong games research and development capabilities and spirit of continuous innovation, keep on developing new online games.

*Dungeon Keeper™ Online (地下城守護者OL)*

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™ (地下城守護者世界)), and has carried out open beta testing in April 2012.

*Development and licensing of existing games*

The Group as in the past puts emphasis on lengthening the lifespan of its existing games. Through providing a variety of virtual items and game tasks to players, continuously launching timely upgrades to the content of various games, higher interest in the games among the players can be kept, and the popularity of the online games can be bolstered.

During the year under review, the Group has continued to introduce new expansion packs to enrich its existing games. Two new Chinese expansion packs of Zero Online (機戰) 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) were released in April and May 2012, respectively. New expansion packs of Eudemons Online (魔域) called "Legacy of Asgard"* (神域爭霸) and "Dead Souls of the Termination Day"* (末日亡靈) were released in April and September 2012, respectively, enhancing the strong attractions of this game to players. The new expansion pack for the Disney Fantasy Online (夢幻迪士尼) was released under two separate phases in August and September 2012. Tou Ming Zhuang Online (投名狀OL) released its new expansion pack "Supreme Lady"* (至尊紅顏) in November 2012. Heroes of Might and Magic Online (英雄無敵在綫) also released its new expansion pack "Mystery of the Wanderer"* (流浪者之謎) in December 2012.

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

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 year under review. In respect of the self-operated games, the Group has launched the expansion pack "Invasion of Pirates"* (海盜來襲) for Conquer Online (征服) in English, French, Spanish, Arabian and Traditional Chinese versions. The Group has also launched various expansion packs in English consecutively in 2012, for example, "Catastrophe of the Worms"* (蟲族浩劫) of Zero Online (機戰) was launched in August and "Undead Mage"* (亡靈巫師) of Eudemons Online (魔域) was launched in December. The Group expected the provision of additional in-game items and premium features will bolster the popularity of its online games.

The Group has entered into other overseas markets through close cooperation with local major operators. The Group has licensed the operation of its own in-house developed online games in various countries and regions, including Hong Kong, Malaysia, Macau, Taiwan, Brazil and Vietnam, so as to attract more users. The Group has launched the expansion pack "World Destruction by Demons"* (滅世魔劫) of Eudemons Online (魔域) in Malay in March 2012.

In November 2012, the Group launched its strategically invested tablet application item, 91 Homes PC version, on the smallest size customer terminal via cloud downloading, and its mobile equipment version was also launched subsequently in December for trial operation, which were well received in the markets of Fujian and Guangxi markets. This project aims to integrate IT thinking and technology and leisure experience of online games with the traditional home decoration industry chain, so that home purchasers, designers, furniture and construction materials suppliers, as well as developers, may provide faster and better value added services to users on this platform.

### *Games in the pipeline*

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

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

It is the first imaginative style ARPG researched and developed by the Group, which is mainly about the adventure story of a courageous dragon-hunter who challenges fierce dragons. The game highlights fierce and brisk fighting in dragon hunting with a refreshing style. Closed beta testing of this game was carried out in December 2012.

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

**Mobile Internet Business**

During the year under review, the mobile Internet business has become an important business of the Group, and the proposed spinning-off of its mobile Internet business helps the Group to realise the maximisation of the potential value. Besides, in along with the research and development and promotion of own-developed and third party famous software products and games for smart-phones as well as the increasing revenue from advertisements, mobile games and smartphone platforms, the strategic importance of the Group's mobile Internet business has further revealed, become another core business portfolio of the Group.

In 2012, the Group continues to launch own-developed software products for smart-phones, which cover a wide range of smartphone platforms. As of December 2012, the increase in the total number of users of the 91 Series smartphone applications (including 91 Assistant* (91助手) (previously named as "91 PC Suite") and HiMarket* (安卓市場) etc.), 91 Panda Reader* (91熊貓看書), 91 Launcher* (91桌面) (previously named as "91 Desktop" 91桌面), the advanced smartphone applications offered in the PRC, reached historical new high record.

Among these applications, 91 Assistant* (91助手) (previously named as "91 PC Suite") was the first to resolve the software installation problem under iOS6 in the industry and became the one of the perfect smartphone application marketplace store product supporting iOS6. In addition, it is a mobile device management tool and a mobile apps store. for enhancing product competitiveness and user experience at the same time.

During the year under review, 91 Launcher* (91桌面) (previously named as "91 Desktop" 91桌面) introduced the iOS version with multiple functions and launched Android V3.0 which is a totally new creation, this version supports desktop item applications and customized enhancement DIY. In future, 91 Launcher* (91桌面) (previously named as "91 Desktop" 91桌面) will continue to improve on performance, message delivery system and external cooperation.

During the year under review, 91 Panda Reader * (91熊貓看書) has launched own-developed products and completed the establishment of backing platform for authors and editors of own-developed contents, as well as started cooperation with many large companies, with a view to provide better quality publications for readers.

HiMarket* (安卓市場), being a mandatory market for third party applications in the preloaded menu of customized handsets of telecommunication groups, has launched the smart TV application, and has established cooperative relationship with major domestic telecommunication players and large-scale IT chain shops to share quality channels to facilitate smooth delivery of HiMarket* (安卓市場) to end users.

* *For identification purpose only*

The Group's smartphone platform experienced fast growth during the year under review, and diversified versions of SDK based on joint communication channels, Window 8 platform, Unity3D and FlashAIR, etc. were launched consecutively. Endeavours were also made to create a PC version of the "18183 mobile games forum" of the 17173 mobile games zone, which was launched online officially at the end of August, and the mobile version was also launched at the end of December.

During the year under review, the Group has further introduced the updated versions of own-developed cross-platform mobile games, such as 91 Farm* (91農場) and 91 Pasture* (91牧場) as well as Hengha Warring States* (哼哈三國) and Warring States* (戰國天下). The players can via these games have series of interactions with their friends, and the loyalty of the game players to mobile games can be increased significantly.

In line with the development of business model in the mobile Internet 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, innovation and promotion of mobile Internet applications, contents and services for the domestic and foreign small and medium enterprises and individual developers through our smartphone platform. The Group has also through cooperation with other mobile Internet enterprises developed and strengthened the content of smartphone platform.

As of 31 December 2012, 920 employees of the Group were engaged in mobile Internet business, representing approximately 27.7% of the overall staff headcount, which will ensure the Group's leading position in the mobile Internet business sector in the future.

## Expanding of business lines

Open Education Projects in Fujian

Fujian Tian Yu Education in which the Group is interested is a professional company focusing on research and development of online education platform and operation of education products. Open education is an education mode that is currently predominant by and has received strong support from the PRC government, and an intense product of education and scientific technology advocated by the Ministry of Education and the government of Fujian Province. Leveraging on its extensive experience in internet, particularly the mobile internet industry, the education platform developed and various users, while integrating the up-stream and down-stream education resources and government resources, the Group has generally, specifically and at all times satisfied the learning and the demand for learning to manage by competent educational authorities, schools, teachers, students and parents, as well as the demand for occupational training by all departments at all levels, which in turn, realizing the dream of "Life Learning" of all the peoples so that the construction of a learning community in Fujian would be materialized. In the meantime, the mechanism of switching academic credits, being the "bank of academic credits", as a critical mechanism for reforming and effective implementation of open education in Fujian Province, is developed by the Group.

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

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

| **Name of other entities of the group or counterparties** | **Nature and consideration of the transaction** | **Conversion rights** | **Redemption rights** | **Completion date of the transaction** | **Dates of announcement of the transaction** |
|---|---|---|---|---|---|
| (i) IDG-Accel China Growth Fund L.P.; (ii) IDG-Accel China Growth Fund-A L.P.; and (iii) IDG-Accel China Investors L.P. (collectively, "IDG Investors") | Pursuant to the terms and conditions of the convertible promissory notes issued to IDG Investors on 21 September 2011, 91 Wireless issued in aggregate 4,006,250 Series B Preferred Shares at a conversion price of USD1.2480499 per Series B Preferred Share to IDG Investors on 17 February 2012. The aggregate principal amount (being USD5,000,000) owed by 91 Wireless to the IDG Investors under the convertible promissory notes had been deemed settled accordingly and the Notes thereafter be cancelled and ceased to have any effect whatsoever. | The holders of the Series B Preferred Shares have the right to convert the Series B Preferred Shares to ordinary shares of 91 Wireless at the applicable conversion price, subject to, among other things, the adjustment as a result of (i) issue of additional ordinary shares without a consideration or with consideration per share less than the applicable conversion price after such issue; (ii) combination or sub-division of preferred shares; (iii) combination or sub-division of ordinary shares; and (iv) reclassification, exchange and substitution ("Series B Conversion Rights"). | 91 Wireless has the right to redeem all Series B Preferred Shares at the applicable redemption price (being 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 ("Redemption Price") after receipt of 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 ("Series B Redemption Rights"). (Such terms were superseded by the Third Amended and Restated Articles of 91 Wireless adopted by special resolution passed on 10 January 2013) | 17 February 2012 | 10 & 20 February 2012 |

| Name of other entities of the group or counterparties | Nature and consideration of the transaction | Conversion rights | Redemption rights | Completion date of the transaction | Dates of announcement of the transaction |
|---|---|---|---|---|---|
| NetDragon Websoft Inc. ("NetDragon (BVI)") (Incorporated in the British Virgin Islands) | 91 Wireless issued to NetDragon (BVI) 2,403,750 Series B Preferred Shares at a total consideration of USD3,000,000 pursuant to a subscription agreement dated 10 February 2012 | Series B Conversion Rights | Series B Redemption Rights | 17 February 2012 | 10 & 20 February 2012 |
| Sino Coast Developments Limited ("Sino Coast") | 91 Wireless issued to Sino Coast 1,602,500 Series B Preferred Shares at a total consideration of USD2,000,000 pursuant to a subscription agreement dated 5 October 2012. | Series B Conversion Rights | Series B Redemption Rights | 12 October 2012 | 8 and 19 October 2012 |

*Enhancement of R&D capabilities*

The intense competition in the online game and mobile Internet industries has driven the Group to concentrate on maintaining its core competitiveness, and upgrading its R&D capabilities. As of 31 December 2012, the Group's overall staff headcount was 3,324, of which 1,876 were members of the development team. After more than a decade of talent cultivation, the development team of the Group has gathered elites of the industry in programming, design and graphics, which will provide support to its frequent R&D, Internet and mobile games upgrades and software and application upgrades, thereby accommodating the latest player preferences and emerging market trends.

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

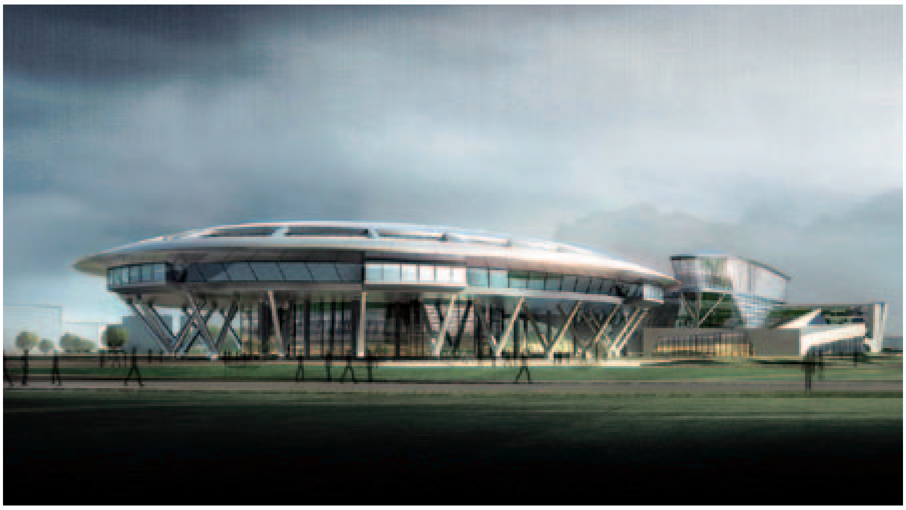
In 2010, the Group had actively participated in the Project, which is a major development project of creativity industry in the Haixi District implemented by the PRC government and planned and supported by the government of the Changle City of Fuzhou in Fujian Province.

The Group acquired land located at Dahe Village of Hunan Town and Shibi Village of Wenling Town, Changle City, Fujian Province, the PRC in 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

Project in the Haixi Animation Creativity City is a key project under construction in Fujian Province in 2013, it is also a key leading project in the cultural creativity industry in the Linkonggang Economic Zone of Fuzhou City. Its landmark building, TQ Building* (天晴樓), located in its Phase 1 and 2 zones and related core zone ancillary facilities will commence operation in 2013. The land for Phase 3 project (AI project) has been acquired smoothly through listing and is currently completing the land supply procedure. In 2013, the Group will also select a site adjacent to the project zone for the implementation of the Animation Education College project to form an integrated industry complex for production, education and research activities. Under the support of preferential policies from the provincial and municipal governments, Haixi Animation Creativity City is set to become a key zone for creativity industries in the southeast coastal region.

As at 31 December 2012, the Group had capital commitments in relation to the development of the Project of approximately RMB339.4 million, of which the Group had paid in approximately RMB215.0 million.



* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

Corporate milestones and awards

| Year 2012 | NetDragon milestones/recognitions | Product milestones/awards |
| --- | --- | --- |
| Jan | | • Eudemons Online was awarded the ("2011 QQ.com Top 10 Most Popular Official Microblogging")* 「2011騰訊網十大最受歡迎官方微博」by QQ.com 「騰訊網」 |
| Feb | • Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") was named ("Member of Internet Society of China )* 「中國互聯網協會會員」 by Internet Society of China* 「中國互聯網協會」 | |
| Apr | • Haixi NetDragon Creativity Industrial Park* 「海西網龍創意產業園」 was honoured as the ("Fujian Key Creativity Industrial Park-Base")* 「福建省創意產業重點園區(基地)」 by the Fujian Provincial People's Government<br>• TQ Digital was honoured as ("Fujian Key Creativity Enterprise")* 「福建省重點創意企業」 by the ("Steering Committee Office for Fujian Creativity Industry Development")* 「福建省創意產業發展領導小組辦公室」 | |

** For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

| Year 2012 | NetDragon milestones/recognitions | Product milestones/awards |
|---|---|---|
| May | • The digital publication and R&D team of the mobile Internet business department of NetDragon was awarded the ("First Fuzhou Youth May Fourth Medal Collective Award")* 「首屆福州青年五四獎章集體獎」by the ("Communist Youth League of China Fuzhou Municipal Committee Fuzhou Youth Association")* 「共青團福州市委福州市青年聯合會」<br>• NetDragon (Fujian) was named ("Culture and Entertainment Association of Fujian Province Standing Deputy Chairman Unit – First Session")*「首屆福建省文化企業協會常務副會長單位」 by the Culture and Entertainment Association of Fujian Province* 「福建省文化企業協會」 | • The 91eHR business execution software 「91eHR企業執行軟件」 of ("E-Yong Websoft Inc.") 「廈門易用軟件技術有限公司」 was awarded the ("2012 China Management Software Outstanding Product Award")* 「2012中國管理軟件優秀產品獎」 by ("China Software Industry Association's China Computer Press")* 「中國軟件行業協會中國電腦報社」 |

* *For identification purpose only*

| Year 2012 | NetDragon milestones/recognitions | Product milestones/awards |
|---|---|---|
| July | • NetDragon (Fujian) was named ("Honest and Trustworthy Demonstration Unit)*「誠實守信示範單位」by the Second Board of Directors of the Association for Redound Reposal, Fujian*「福建省誠信促進會第二屆理事會」<br>• NetDragon (Fujian) was named ("Director Unit of the Second Board of Directors of the Association for Redound Reposal, Fujian")*「福建省第二屆誠信促進會理事單位」by the Pan Xincheng, Chairman of the Second Board of Directors of the Association for Redound Reposal, Fujian*「福建省誠信促進會第二屆理事會會長潘心城」 | • Eduemons Online was awarded the ("2012 Fourth China Internet Café Game Festival – Festival Theme Award (Chang Qing Online Game)")*「2012年第四屆中國網吧遊戲盛典－盛典主題獎(長青網遊)」by Pubwin China Internet Café Game Festival*「Pubwin 中國網吧遊戲盛典」 |
| Aug | • NetDragon (Fujian) was awarded the ("2011 Top 10 Cultural Enterprises in Fujian Province Award")*「2011年度福建省文化企業十強獎」by the Fujian Province Cultural Reform and Development Work Leading Group*「福建省文化改革發展工作領導小組」 | |
| Sep | • NetDragon (Fujian) was awarded the ("2011-2012 Fujian Province Internet Industry Contribution Self-discipline Medal")*「2011-2012年度福建省互聯網行業貢獻自律獎牌」by Fujian Internet Society*「福建省互聯網協會」 | |
| Dec | • NetDragon (Fujian) was awarded the ("2012 China Internet Culture Festival Mobile Online Brand Award")*「2012中國網絡文化盛典移動網絡品牌獎」by China International Internet Culture Expo Organizing Committee*「中國國際網絡文化博覽會組委會」 | |

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

| Year 2012 | 91 Wireless milestones/ recognitions | Product milestones/ awards |
|---|---|---|
| Jan | | • 91 Farm* 「91農場」 was awarded the ("Top 10 Most Popular Chinese Mobile Phone Game Award")* 「中國十大最受歡迎民族手機遊戲獎」 by the Publishers Association of China* 「中國出版協會」<br>• Hiapk was awarded the ("2011 Fujian Most Popular Website Microblogging Award")* 「2011福建最熱門網站微博獎」 by www.sina.com 「新浪網」<br>• Android Market-HiMarket Team was awarded the ("2011 "Most Popular Award" by PChome")* 「2011年度PChome電腦之家評選"最具人氣獎"」by Pchome |
| Feb | | • 91 Assistant* 「91助手」 (previously named as "91 PC Suite") was awarded the ("2011 China Internet Billboard Annual Top 10 Mobile Internet Applications Certificate")* 「2011年中國互聯網風雲榜年度十佳移動互聯網應用證書」by sootco.com 「速途網」 |
| Apr | | • Hiapk was awarded the ("2011-2012 Internet Community Billboard IT Digital Web Sites Most Popular Award")* 「2011-2012年度互聯網社區龍虎榜 IT數碼類網站最具人氣獎」by Discuz! tech.qq.com ifeng.com DoNews 「Discuz! 騰訊科技 鳳凰網 DoNews」 |
| May | • Fujian Bo Rui Websoft Technology Ltd. ("Fujian Bo Rui") was named ("Culture and Entertainment Association of Fujian Province Director Unit – First Session")* 「首屆福建省文化企業協會理事單位」 by the Culture and Entertainment Association of Fujian Province* 「福建省文化企業協會」 | |

** For identification purpose only*

| Year 2012 | 91 Wireless milestones/ recognitions | Product milestones/ awards |
|---|---|---|
| Jun | | • 91 Assistant* 「91助手」 (previously named as 91 PC Suite) was awarded the ("Best Application Platform Award")* 「最佳應用平台獎」 by iiMedia Research Group*「艾媒諮詢集團」<br>• Android SMS* 「安卓短信」 was awarded the ("Best Growing Product Award of the Year")* 「年度最佳成長產品獎」 by iiMedia Research Group *「艾媒諮詢集團」<br>• 91 Panda Reader* 「91熊貓看書」was awarded the ("16th INT'L SOFT China 2011 Innovation Award")* 「第十六屆中國國際軟件博覽會創新獎」by the China International Software Fair Organization Committee*「中國國際軟件博覽會組委會」 |
| July | | • 91 Assistant* 「91助手」 (previously named as 91 PC Suite) was awarded the ("91 PC Suite SMS Name and Address Service Standard Conference Outstanding Application Award")*「91助手短信名址服務標準發佈會優秀應用獎」by China Academy of Telecommunication of Research of MIIT*「工信部電信研究院」 |
| Sep | • Fuzhou BoYuan Wireless Websoft Technology Ltd. ("Fuzhou BoYuan Wireless") was awarded the ("Software Enterprise Award")* 「軟件企業獎」by Fujian Provincial Bureau of Information Industry*「福建省信息化局」 | • 91 Assistant* 「91助手」 (previously named as 91 PC Suite) was awarded the ("Seeking For the Best Internet Mobile Practice Certificate")* 「尋找最佳互聯網移動實踐證書」by the China Internet Conference Organizing Committee*「中國互聯網大會組委會」 |

** For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

| Year 2012 | 91 Wireless milestones/ recognitions | Product milestones/ awards |
|---|---|---|
| Oct | • Fuzhou BoYuan Wireless was awarded the ("Most Innovative Application Development Enterprise Top 10 Award")* 「最具創新應用開發企業top10獎」 by 2012 Android Global Developer Conference* 「2012安卓全球開發者大會」 | • Android SMS* 「安卓短信」 was awarded the ("China Handset Communication Auxiliary Software Most Popular Award")* 「中國手機通訊輔助軟件最佳人氣獎」by sj.91.com 「91手機娛樂」 |
| | | • 91 Panda Reader* 「91熊貓看書」was awarded the ("China Handset Reading Software Most Promising Award")* 「中國手機閱讀軟件最具潛力獎」by [sj.91.com android.91.com] 「手機娛樂安卓網」 |
| | | • 91 Assistant* 「91助手」 (previously named as "91 PC Suite") was awarded the ("Application Channel List Top 10", Game Channel List Top 10)* 「應用渠道排行榜top10,遊戲渠道排行榜top10」by sfw.cn 「上方網」 |
| Nov | | • 91 Assistant* 「91助手」(Previously named as "91 PC Suite") was awarded ("China Mobile Application Innovation Award Excellence Award")* 「中國移動應用創新獎優秀獎」by China Mobile Competition Organizing Committee*「中國手機大賽組委會」 |
| Dec | • Fuzhou BoYuan Wireless was awarded the ("2012 Standard Chartered Bank China Growth Enterprise Value List Annual Mobile Application Product Award")* 「2012渣打銀行中國成長企業價值榜年度移動應用產品獎」by APEC SME Summit Organizing Committee*「APEC中小企業峰會組委會」 | |

** For identification purpose only*

| Year 2012 | 91 Wireless milestones/ recognitions | Product milestones/ awards |
|---|---|---|
| Dec | | • 91 Assistant* 「91助手」 (previously named as "91 PC Suite") was awarded the ("Prerequisite for Handset Digital Device Installation Award")* 「手機數碼類裝機必備獎」 by 360 「360」<br>• The website of 91 Panda Reader*「91熊貓看書」網站 was awarded the ("Most Innovative Web Site in the Publishing Industry Award")* 「出版業最具創新網站獎」by the Institute of Press and Publication of China under the Chinese Publishers Association* 「中國出版協會 中國新聞出版研究所」 |

## (7) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2012, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB1,731.3 million (31 December 2011: RMB1,468.9 million), out of which about RMB194.4 million (31 December 2011: Nil) has been pledged to bank to secure loan.

As at 31 December 2012, the Group had net current assets of approximately RMB1,369.3 million as compared with approximately RMB1,329.7 million as at 31 December 2011.

## (8) GEARING RATIO

The gearing ratio (consolidated bank loan/consolidated total equity) was 0.13 (31 December 2011: Nil). As at 31 December 2012, total bank loan of the Group amounted to approximately RMB183.6 million was fixed rate loan.

## (9) CAPITAL STRUCTURE

As at 31 December 2012, the Group's total equity amounted to approximately RMB1,416.0 million (2011: RMB1,498.9 million).

* *For identification purpose only*

## (10) FOREIGN CURRENCY RISK

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

## (11) CREDIT RISK

As at 31 December 2012, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

## (12) LIQUIDITY RISK

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

## (13) PROSPECTS AND OUTLOOK

Looking ahead, the Group plans to further enhance our research and development capabilities for games and foster high quality research and development talents. While developing new online games continuously to expand product lines, we will continue to renew the contents and offer differentiated versions of online games to extend the life cycle of existing products in order to maximize the growth in revenue base of the Group.

For overseas market development, the Group will maintain its current market share in overseas markets with extra attention to emerging markets of substantial potential to solidify our leading position in the global online game industry.

In respect of its mobile Internet business, as smartphones and 3G network are becoming more and more popular in the PRC, the competitive edges of the Group's mobile Internet products including smartphone apps marketplaces, smartphone platform and applications are becoming stronger, the substantial customer base and the comprehensive sales channels, it is believed that all these will facilitate the Group's breakthrough in business.

**Online Games**

***MMORPGs***

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

***Crazy Tribe*(瘋狂部落)***

Crazy Tribe*(瘋狂部落) is a 2.5D MMORPG, it is a large-scale Internet game for multiple online players using the primitive society as background with fresh, lovely and artistic style. The lost mysterious ancient civilization, a rich system of pre-historical monsters, a thrilling and exciting pre-historical adventure map, fresh and interesting primitive tribal activities, are the highlights of this game. This game has carried out closed beta testing in September 2012, first open testing in November 2012 and unlimited open testing in December 2012. It is expected that unlimited paid testing will be carried out in early 2013.

***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.

* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

***Absolute Force* (絕對火力)***

A own-developed first-person role-playing shooting game of the Group which makes use of modern anti-terrorism war as background, carries features of realistic graphic designs and a wide range of virtual guns, applies the 3D character animation, so as to enrich the game scenes and operation systems nearer to perfection. The players will in the game experience unprecedented contesting excitement, obtain the most true-to-life virtual game feeling.

***Evil Spirits*(妖界)***

Evil Spirits*(妖界) is a fostering strategic type of game integrating leisure strategy, instantaneous fighting and social group mutual interactions with Chinese myths as background. This game has been launched an open HiMarket paid version on 5 December 2012 and it is expected to launch the open IOS paid version in early 2013.

**Mobile Internet Business**

The Group will further develop mobile Internet products, including smartphone apps marketplaces, smartphone platform and applications, and launch updated versions for existing products on an ongoing basis, offer users with more user-friendly product experience to meet the various needs of the mobile Internet users, so as 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 developers at home and abroad to create a win-win situation for all parties.

During the year under review, the Group's mobile advertising business continued to maintain a rapid growth trend. As of 31 December 2012, mobile advertising revenue reached historical new high level again. We believe the continuous rapid growth of the mobile advertising business was attributable to the benefits arising from the growth in scale of the mobile Internet market in the PRC, the growing number of users of the Group's 91 Assistant and HiMarket. Looking ahead, the Group will continue the investing in advertising sales team, sales system and oriented advertising platform research and development, and at the same time expanding third party mobile delivery channels, to provide protection and growth momentum for continuous growth in the mobile advertising business.

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

On 9 January 2013, NetDragon (BVI) awarded 6,114,500 ordinary shares of 91 Wireless to certain employees of the Group by transferring the awarded shares to Euro Victory Limited, a company wholly-owned by SMP Trustees (NZ) Limited which is the trustee of The Greenford Trust. The beneficiaries of The Greenford Trust are the employees of the Group (excluding Directors).

** For identification purpose only*

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

**Conclusion**

In the face of the intensifying competition in the online game industry and the overall slowing down in the development of the industry, the Group believes that its future success will rely more on its core competitiveness. The Group will continue to via launching internal training programs and hiring experienced elite game developers, graphic designers and market operators, invest in and strengthen its own game development and operation capabilities, for the continuous enhancement of its product attraction to players.

There has been a surge in the number of online game products which resulted in higher market expectations on quality games. During the year under review, the Group has endeavoured to regulate the development process of various game projects, carried out initiatives to optimise the perspectives and planning of market forecast at the early development stage, identified stage targets for each version of game projects and improved operating standards for projects which are subject to regular auditing so as to ensure that the storyline setting, graphic style and playing methods of new games satisfy the demands of players. The above measures would help to optimize the cost structure of the Group and generate more profits from the revenue growth in future.

The Group's advanced lay-out for mobile Internet business is expected to boost its rapid growth in 2013. Meanwhile the Group will establish development process for mobile products including smartphone apps marketplaces, smartphone platform and applications to regulate the applications for developing mobile products. It is believed that riding on the favourable mobile Internet development trend in the PRC as well as the persistent endeavours of the Group, mobile Internet business will become another major source of future growth for the Group after online games.

**Other Events**

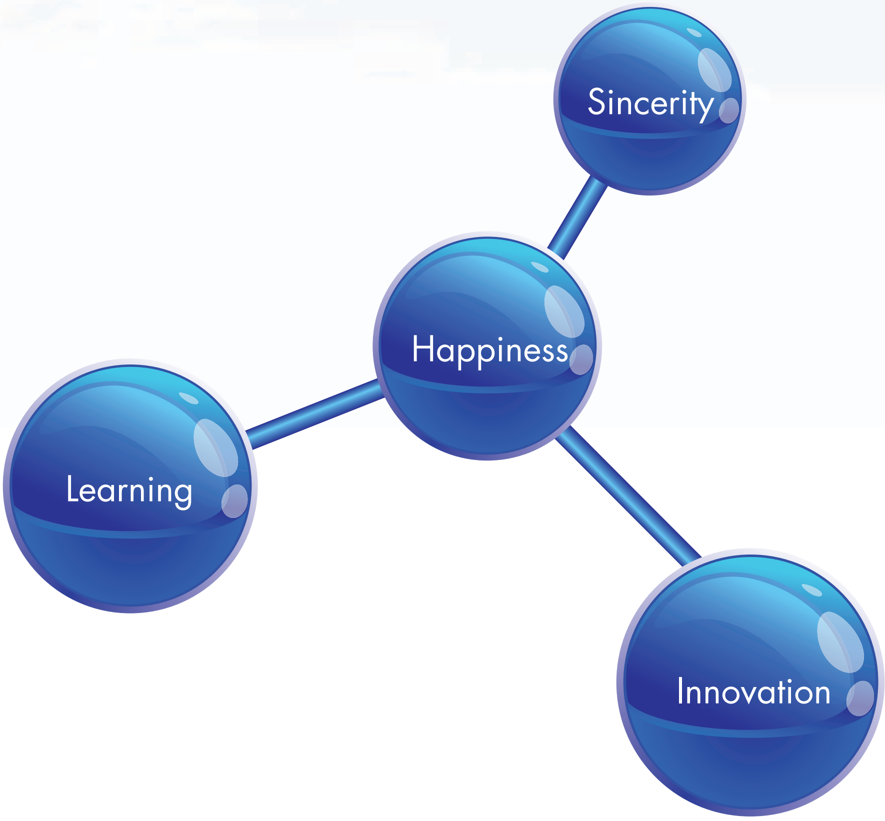
The Group started the talent optimization project since 2009 and its objectives are to streamline and improve team work efficiency, reduce labour costs, enhance coherence and strengthen competitiveness of our staff. We had successfully enhanced the mobility of staff and maintained the growth momentum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

In order to strengthen the game development process, the Group will continue to enhance its integrated operational model, including the business process management system, time management system, bug management system, production schedule system and version management system, which will help to improve operational efficiency, project management and office administration processes.

# CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

## CORPORATE CULTURE

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




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

### Happiness

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

### Learning

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

# CORPORATE CULTURE AND SOCIAL RESPONSIBILITIES

Innovation

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

Sincerity

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

## CORPORATE SOCIAL RESPONSIBILITIES

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

The Group has been actively engaged in a number of charitable events over the past year, including some of which were initiated by our own.

Youth Business China (Fujian, Haixi)

Being the chairman institution of Youth Business China (Fujian, Haixi) ("Haixi Youth Business"), NetDragon continued to donate funds during the year under review to support the youth to start their own businesses and has donated business formation support funds of almost RMB10 million in aggregate. Haixi Youth Business provided training programs, such as workshops, training classes and clubs, for more than 80,000 young people who are dedicated to opening up their businesses. Of which approximately 1,400 young people successfully started their businesses. During the period under review, more than 150 people obtained interest-free loans of between RMB30,000 and RMB50,000 and were provided with one-to-one mentorship programs. Offices and service centers were established throughout the province with volunteer mentors recruited to provide volunteer services. We have obtained a special government grant for undergraduates to subsidize the training programs and the selection and reward of 大學生創業之星. Besides, we have obtained support from organizations such as Peak Sports (匹克運動), Longde Group (隆德集團), fj.qq.com (騰訊大閩網) and 鼓樓創業園 in capital, projects, venues and publicity.

# STAFF RELATIONSHIP AND WELFARE

## HUMAN RESOURCES

The Group considers human resource talent as our most valuable asset and vital to our overall business development. In order to expand and diversify its game offerings, extend the reach of its products in existing and new markets, further leverage the inherent advantages of vertical integration as a developer and operator of online games and explored different opportunities by developing mobile Internet platforms, the Group has its overall staff headcount to a total of 3,324 as at 31 December 2012.

In 2012, NetDragon has achieved significant improvement in human resources management.

1. The Company further improved employment qualifications management and formulated and issued the "Measures for the Administration of Employment Qualifications Grade Assessment Officers". It also trained and certified eligible assessment officers to facilitate them to enhance their assessment skills and improve the quality of assessment so as to better support staff training and selection and improve the management of the employment of senior executives of the Company. They also formulated unified standards for the selection and evaluation of senior staff to help the Company better achieve its strategic targets and create value.

2. Relying on day-to-day recruitment, the Company established a pool of high caliber candidates and conducted industry remuneration researches and collected information on candidates of the relevant competitors taking into account the development needs and the management status quo of the Group's business departments to provide important information support for the Company's remuneration management system and core research and development talent reserve.

3. As for performance management, the Group continuously carried out PDCA (Plan, Do, Check, Action) by adhering to "business target-oriented". Details were also optimized for the year-end appraisal plan on the basis of the year-end performance appraisal methods in previous years so that it can further perform target-oriented and performance improvement functions to facilitate the optimization of the organizational structure and the rational allocation of personnel of the Company, thereby achieving the Company's operating targets.

4. On the basis of continuously driving the "Golden Handshake Plan" and project incentive in 2012, the Company continued to improve the existing remuneration system to enhance its competitiveness in the remuneration market. During the year under review, the Group granted Share options to more than 200 staff, representing approximately 8% of the headcount of the Group. A total of 500 people were granted Share options, representing approximately 20% of the headcount of the Group. Meanwhile, the Company implemented a new remuneration plan/structure covering approximately 20% of the headcount of the Company, providing strong support to a certain extent for attracting and retaining core personnel of the Company!

5. The Company participated in the 2012 Employee Engagement Survey conducted by an independent consultant and was awarded the "Employer with which Employees are Most Satisfied in the Hi-Tech Industry Comprehensive Award 2012"* ("2012高科技行業員工最滿意僱主綜合獎"), providing complete information support for the management improvement direction of the Company. The Company improved the game star and flexible welfare system, adjusted the welfare strategy and reinforced cultural orientation. Meanwhile, the Company established the 91 Charity Foundation and management committee to provide relief for employees suffering from severe family economic difficulties due to serious illnesses and their immediate family members by following the principles of friendship and mutual assistance, transparent management, special funds for special purposes and long-acting operation.

* For identification purpose only

# STAFF RELATIONSHIP AND WELFARE

## TRAINING AND TRAINING SYSTEM

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

## RESULTS ACHIEVED IN 2012

During the year under review, the Company conducted a total of more than 200 training sessions for employees of the Group, with more than 6,000 participants in total and total training hours of approximately 48,000 hours.

In respect of application of advanced management, the new Talent Nurture Programme was completed for the full year. A total of approximately 40 management training sessions were organized with management personnel as the objects. Over 7,000 training hours were conducted with over 900 staff attended. The programme focused on the Company's strategic plan for 3 to 5 years and the new business development trend from a new starting point and new perspective. Based on the capability and quality requirements for management personnel under the new landscape facing the Company, together with management training for cadres through diversified training means, the programme aimed to strengthen the awareness of operational management and organizational management to enhance leadership and influence. Meanwhile, customized needs of various departments were also addressed and more than 10 tailor-made management training sessions were offered to the departments with approximately 1,500 hours in total, providing strong support to the departments for enhancement of management standards flexibly.

In respect of technological training, through independent operation of the NetDragon University and the nurturing of a large number of part-time lecturers, more than 20 public lectures on technology were organized and over 800 staff attended, for promoting the transfer of technological experience and creating the technology sharing atmosphere among departments. One of the most important training programs valued highly by the Company was the training session for nurturing product creators. During the year under review, about 20 training sessions were organized, nurturing over 90 product creators.

To foster in-depth collaboration among teams, 2 sessions of annual team training on implementation capabilities were held and customized training on in-depth experience were organized to widen the scope of customized programmes. Meanwhile, regular extension programmes were implemented to increase team members' confidence in facing future challenges. In order to expand the coverage of team building, the NetDragon University also nurtured a group of team promoters who completed approximately 10 sessions of training during the year. The team promoters played an active role in all departments and assisted the departments to carry on building their teams.

E-learning, the online learning platform, completed its phase II development to promote the electronic management of training materials. The number of visitors to E-learning surpassed 2,000 which was above the annual target, a good online self-learning atmosphere was gradually developed within the Group.

# STAFF RELATIONSHIP AND WELFARE

## RESULTS EXPECTED TO ACHIEVE IN 2013

In 2013, the NetDragon University will facilitate the commencement of the new certification programme to satisfy the strategic needs of the Company and is planning to start certifications for 5 positions and technologies including new staff certification and management training certification. Under the business system centering on certification, more refined and in-depth management training, skills training and development training will be offered. A breakthrough from the product-oriented approach adopted in the past will be achieved in 2013 by changing to a human-oriented approach, which will address more training needs of the middle and basic level management staff and refine the management nurturing skills, to establish a customized and highly efficient management system by combining specific needs of various departments. Technological training will mainly focus on the development of part-time teachers to increase the coverage of technological training, promote essence training sessions on technologies at the corporate level and create a good atmosphere for technology sharing and refining. Experience training will be further developed from the original programme, large-scale development activities similar to orientation activities will be organized to facilitate in-depth exchange and collaboration among team members. Phase III development for the E-Learning online learning platform will continue to pursue with improvements, in order to further enhance the online learning atmosphere and effectiveness, and to improve the operational efficiency of training.

## WORKING ENVIRONMENT

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

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

Liu Dejian, aged 41, Chairman, Executive Director

Mr. Liu led us to become one of the PRC's leading online game and mobile Internet operations companies. He is mainly responsible for the overall business strategic development of the Group & 91 Group and is the chief game designer of our game development team. Mr. Liu Leads the game development team on the design of the online game products. He formulates the development policy and contributes to the growth of the Company as a competitive online game operator and developer. Apart from his management and leadership, Mr. Liu constantly holds training seminars to further enhance the development of our human resources. Prior to starting NetDragon (Fujian), Mr. Liu graduated with a Bachelor's degree of Science in Chemistry from University of Kansas in the USA in 1995. He had been the vice-president of Beso Biological Research Centre, Inc ("Beso") from 1995 to 2005. He was also the vice-president of Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") from 1995 to 2000 and then promoted to be the president since 2001. Mr. Liu was first introduced to the technology of Internet during his study in the USA when he established a website for marketing of softwares. Anticipating that Internet would have a good development opportunity in the PRC, he founded NetDragon (Fujian) in 1999 when he came back to the PRC. He was awarded as the Most Influential Person within the Online Game Industry in China in the Chinese Game Industry Annual Conference 2009 in January 2010（「2009 年度中國遊戲產業最具影響力人物」）. He was also awarded as "Excellent Entrepreneur of China Game Industry*（「中國遊戲行業優秀企業家」）in the China Game Industry Annual Conference in December 2009. He was appointed as vice-chairman of Fujian Province Association of Youth Entrepreneur*（「福建省青年企業家協會」） in April 2006. He also obtained Fujian Youth Entrepreneur Achievement Award*（「福建青年創業成就獎」）in April 2005, Go Tone Fujian IT Industry Top 10 Outstanding Youth*（「全球通福建IT行業十大傑出青年」）in May 2005, Certificate of Fujian Entrepreneurial Tutor of the Chinese Youth Business International Programme*（「中國青年創業國際計劃福建創業導師證書」）in June 2005, Fujian Youth Technology Award*（「福建省青年科技獎」）in March 2010, Software Outstanding Talent in Fujian Province*（「福建省軟件傑出人才」）in September 2010 and Entrepreneurial Excellence Award in Haixi*（「海西創業英才獎」）in April 2012, and he was appointed as a member of the Second Council of The Association for Redound Reposal, Fujian（福建省誠信促進會第二屆理事會）in July 2012. In June 2011, Mr. Liu received the Management Talent Award*（「領軍人物獎」）Mr. Liu is also a director of NetDragon Websoft (Hong Kong) Limited ("NetDragon (Hong Kong)"), NetDragon (BVI), 91 Wireless, BoYuan (Hong Kong) Wireless Websoft Technology Limited ("BoYuan (Hong Kong)"). Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

* *For identification purpose only*

# DIRECTORS AND SENIOR MANAGEMENT

Liu Luyuan, aged 40, Executive Director, Chief Executive Officer, Compliance Officer and one of the authorized representatives of the Company

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

Zheng Hui, aged 44, Executive Director

Mr. Zheng is the Director of the Company and responsible for the overall management and administration of the Group. Mr. Zheng manages our administrative department and provides supporting resources to our operation. Mr. Zheng also coordinates, supervises and manages the duties of our various departments. Mr. Zheng has more than 20 years of management and administration experience. He is one of the founding shareholders and has been appointed as the senior executive manager in NetDragon (Fujian) since 1999. Mr. Zheng is also the legal representative and executive director of Shanghai Tiankun Digital Technology Ltd ("NetDragon (Shanghai)" ) since 2004, the Legal representative and executive director of Fujian Tianyu Education Technology Limited*（「福建天漁教育科技有限公司」）since 2010 , also the legal representative and executive director of Fuzhou Tiannuo Network Technology Limited *（福州天諾網絡科技有限公司）, Fuzhou Changyu Network Technology Limited*（福州暢裕網絡科技有限公司）, and Fujian Best Assistant Education Technology Limited* （福建貝森特教育科技有限公司）since 2012, the legal representative of Fujian Tianquan Education Technology Limited*（福建天泉教育科技有限公司）and the legal representative and chairman of Fuzhou Tianmiao Network Technology Limited *（福州天渺網絡科技有限公司）. He is also a member of the first Fujian Cultural Enterprises Association*（福建省文化企業協會）. Before founding NetDragon (Fujian) in 1999, Mr. Zheng worked in Beso and Fuzhou 851 from 1992 to 1999. He obtained a graduation certificate from the Continuing Education Institute of Beijing Normal University in 2000. Zheng Hui is the cousin of Liu Dejian and Liu Luyuan.

* *For identification purpose only*

Chen Hongzhan, aged 40, Executive Director, Vice President, Chief Technology Officer

Mr. Chen is the Vice President, Chief Technology Officer and Executive Director of the Company. He worked as a game developer before joining the Company in 2001. The technical team led by Mr. Chen is responsible for the development procedure of our games and the technical support to the production of our games. His technical support and experience have raised the efficiency and quality of the company's game development department. He is an experienced online game developer with over 10 years of experience in the management of game development. He is mainly responsible for game development of the Company. Mr. Chen established his own online game studio from 1996 to 1999. Before joining us in 2001, Mr. Chen worked as the project manager in Chongqing Dazhong Software Company from 1998 to 2000 and the manger of the technical department in Beijing Beijibing Technology Development Company Limited from 2000 to 2001. Mr. Chen graduated with a Bachelor's degree of Engineering in Mechanical Design and Manufacture (「機械設計及製造」) from Beihang University (「北京航空航天大學」) in July 1995.

Mr. Chen was appointed as a director of 91 Wireless on 13 August 2011. He is mainly responsible for overall technological and product development matters of 91 Group. He is also the director of Talent Zone, BoYuan (Hong Kong), Keen City, Prestige Plus, Alpha Great, Fuzhou BoYuan Wireless, Jiangsu BoWang, Jiangsu BoDe, Fujian Bo Rui, Fujian Bo Dong Cultural and Communication Ltd. ("Fujian Bo Dong"), all being subsidiaries of 91 Group Companies.

## NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 50, Non-executive Director

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

# DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 47, Independent non-executive Director

Mr. Chao was appointed as an independent non-executive Director on 15 October 2007. Mr. Chao is also the chairman of the audit committee, a member of our remuneration committee and nomination committee. Mr. Chao is the Chairman and Chief Executive Officer of SINA Corporation, a publicly listed company in Nasdaq. Mr. Chao joined SINA Corporation as a Vice President of Finance in 1999 and served as its Co-Chief Operating Officer, President and Chief Financial Officer before his current position as the Chairman and Chief Executive Officer. Prior to joining SINA, Mr. Chao served as an experienced audit manager in PricewaterhouseCoopers LLP to provide audit and business consulting services for companies in Silicon Valley, California. Mr. Chao is currently a director of Focus Media Holding Limited, a publicly listed company in Nasdaq. Mr. Chao has been appointed as a Co-Chairman of the Board of Directors of E-House (China) Holdings Limited, a publicly listed company in New York Stock Exchange, since April 2012. Mr. Chao graduated with a Master's degree in professional Accounting from the University of Texas at Austin in 1993, a Master's degree in Journalism from the University of Oklahoma in 1991 and a Bachelor's degree in Journalism from the Fudan University in 1988.

Lee Kwan Hung, aged 47, Independent non-executive Director

Mr. Lee was appointed as an independent non-executive Director on 15 October 2007. Mr. Lee is also the chairman of our remuneration committee, a member of our audit committee and nomination committee.

He is a practicing solicitor and received his LL.B (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as solicitor in Hong Kong in 1991 and in England and Wales in 1997.

Mr. Lee is currently an independent non-executive director of Yuexiu REIT Asset Management Limited (being the manager of Yuexiu Real Estate Investment Trust), Embry Holdings Limited, Asia Cassava Resources Holdings Limited, Futong Technology Development Holdings Limited, Newton Resources Ltd, Walker Group Holdings Ltd, Tenfu (Cayman) Holdings Co Ltd, Far East Holdings International Limited and China BlueChemical Limited, the shares of which are listed on the Stock Exchange. Mr. Lee was also an independent non-executive director of GST (New Universe International Group Ltd). Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

# DIRECTORS AND SENIOR MANAGEMENT

Liu Sai Keung, Thomas, aged 40, Independent non-executive Director

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

## SENIOR MANAGEMENT

Wu Chak Man, aged 41, Vice President, Chief Financial Officer, General Manager of NetDragon (Shanghai)

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

Mr. Wu was appointed as a director of 91 Wireless on 12 January 2011. He is mainly responsible for overall management and strategic planning in particular of sales and marketing and corporate finance matters of 91 Group Companies. He is also the director of Talent Zone, BoYuan (Hong Kong), Keen City, Prestige Plus, Alpha Great, FuZhou BoYuan, Jiangsu BoWang, Jiangsu BoDe, Fujian Bo Rui, Fujian Bo Dong, all being subsidiaries of 91 Group Companies.

Wu Jialiang, aged 36, Vice President, Director of TQ Digital and NetDragon (Fujian)

Mr. Wu graduated with a Bachelor's degree in Applied Mathematics from the University of Fuzhou in 1999. He has over 13 years of experience in system management, server operation and anti-hacking. After joining us in 1999, he is responsible for the establishment of IT network, the maintenance of game servers, the cloud storage and other technology reseaches, to ensure the timely application and implementation of advanced network technology. Mr. Wu has been the responsible officer in our technical department, value-added business department and VIP management centre.

# DIRECTORS AND SENIOR MANAGEMENT

Rhee Kwanwoo, James, aged 45, Vice President, Corporate Development

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

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Tam Hon Shan, Celia, aged 40, Financial Controller, Company Secretary, Qualified Accountant and one of the authorised representatives of the Company

Ms. Tam joined us in April 2007 and is responsible for the financial and accounting management and secretarial affairs of the Company. She was appointed as the Company Secretary and Senior Director of the Finance Department of 91 Wireless in 2012. She graduated with a Bachelor's degree in business accounting from the University of Lincolnshire and Humberside in 2000. She is a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. She has over 10 years of experience in accounting and finance field.

Ms. Tam is also the Company Secretary, financial controller, qualified accountant of the 91 Wireless. Ms. Tam is responsible for the financial and accounting management and secretarial affairs of 91 Wireless.

# REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

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

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

Details of the principal activities of the Company's principal subsidiaries are set out in note 45 of Notes to the Consolidated Financial Statements.

## RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 December 2012 are set out in the Consolidated Statement of Comprehensive Income on page 109.

The interim dividend of HKD0.15 per share amounting to approximately RMB62,927,000 for the six months ended 30 June 2012 had been approved by the Directors and was paid on 14 September 2012.

The Directors now recommend the payment of a final dividend of HKD0.2 per share. The final dividend is expected to be payable on or before Monday, 10 June 2013 to shareholders whose names appear on the register of members of the Company on Friday, 31 May 2013, amounting to approximately RMB81,947,000.

# REPORT OF THE DIRECTORS

## PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2012.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2012 set out in note 13 of Notes to the Consolidated Financial Statements.

## SHARE CAPITAL

Details of movements of the Company's issued share capital for the year ended 31 December 2012 are set out in note 35 of Notes to the Consolidated Financial Statements.

## RESERVES

Movements in the reserves of the Group for the year ended 31 December 2012 are set out in the Consolidated Statement of Changes in Equity.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2012 and 2011, the Company had no reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB81,947,000 (2011: approximately RMB50,062,000) and accumulated loss of approximately RMB62,230,000 (2011: approximately accumulated loss RMB44,612,000) of the Company.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers and the Group's largest customers accounted for approximately 5.2% and approximately 0.7%, respectively, of the Group's total turnover for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for approximately 49.5% and approximately 23.0%, respectively, of the Group's total purchase for the year.

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

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors during the year were as follows:

Executive Directors

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

Non-executive Director

Mr. Lin Dongliang

Independent non-executive Directors

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

Notes:

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

# REPORT OF THE DIRECTORS

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Cont'd)

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

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

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

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

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

## DISCLOSURE OF INFORMATION ON DIRECTORS

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

The annual emolument of Mr. Chao Guowei, Charles, an independent non-executive Director, has been revised from approximately RMB303,000 to approximately RMB332,700.

The annual emolument of Mr. Lee Kwan Hung, an independent non-executive Director, has been revised from approximately RMB303,000 to approximately RMB332,700;

The annual emolument of Mr. Liu Sai Keung, Thomas, an independent non-executive Director, has been revised from approximately RMB303,000 to approximately RMB332,700.

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

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

| **Name of Director** | **Name of company** | **Capacity and nature of interests** | **Number of shares and underlying shares held or amount of registered capital contributed** *(Note 1)* | **Approximate percentage of shareholding** |
|---|---|---|---|---|
| Liu Dejian *(Note 2)* | The Company | Beneficial owner and through controlled corporations | 254,686,752(L) | 50.40% |
| Liu Dejian *(Note 3)* | NetDragon (Fujian) | Beneficial owner | RMB9,886,000(L) | 98.86% |
| Liu Dejian *(Note 3)* | NetDragon (Shanghai) | Beneficial owner and through a controlled corporation | RMB1,000,000(L) | 100.00% |
| Liu Luyuan *(Note 2)* | The Company | Beneficial owner and through controlled corporations | 254,486,752 (L) | 50.36% |
| Liu Luyuan *(Note 3)* | NetDragon (Fujian) | Beneficial owner | RMB9,886,000(L) | 98.86% |
| Liu Luyuan *(Note 3)* | NetDragon (Shanghai) | Beneficial owner and through a controlled corporation | RMB1,000,000(L) | 100.00% |
| Zheng Hui *(Note 2)* | The Company | Benificial owner and through controlled corporations | 253,086,752 (L) | 50.09% |

# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

| 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 |
|---|---|---|---|---|
| Zheng Hui *(Note 3)* | NetDragon (Fujian) | Beneficial owner | RMB9,886,000(L) | 98.86% |
| Zheng Hui *(Note 3)* | NetDragon (Shanghai) | Beneficial owner and through a controlled corporation | RMB1,000,000(L) | 100.00% |
| Chen Hongzhan *(Note 4)* | The Company | Beneficial owner and through a controlled corporation | 13,300,019(L) | 2.63% |
| 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% |

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Notes:

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

2. Liu Dejian is interested in 95.40% of the issued share capital of DJM Holding Ltd., which in turn is interested in 36.82% 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 5.21% 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 36.82% and 3.76%, 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 3.91% of the issued share capital of the Company.

   Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 49.71% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc.. On 7 December 2009, the Company awarded 1,600,000 shares and 1,400,000 shares of the Company to Liu Dejian and Liu Luyuan, respectively. On 22 July 2011, the Company granted 284,000 share options to each of Liu Dejian, Liu Luyuan and Zheng Hui.

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

4. Chen Hongzhan is interested in 99.00% of the issued share capital of Cristionna Holdings Limited, which in turn is interested in 2.22% 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 2.63% of the issued share capital of the Company through his shareholding in Cristionna Holdings Limited and his direct beneficial interest in the issued share capital of the Company.

5. On 22 July 2011, the Company granted 400,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sui Keung, Thomas. On 23 April 2012, the Company again granted 400,000 share optioins 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 31 December 2012, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

So far as is known to the Directors, as at 31 December 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** *(Note 1)* | **Approximate percentage of shareholding** |
|---|---|---|---|---|
| DJM Holding Ltd. | The Company | Beneficial owner | 186,078,100(L) | 36.82% |
| NetDragon (Fujian) | NetDragon (Shanghai) | Beneficial owner | RMB990,000(L) | 99.00% |
| IDG Group *(Note 2)* | The Company | Beneficial owner | 78,333,320(L) | 15.50% |
| Ho Chi Shing *(Note 2)* | The Company | Through a controlled corporation | 78,333,320(L) | 15.50% |
| Zhou Quan *(Note 2)* | The Company | Through a controlled corporation | 73,490,095(L) | 14.54% |
| Richmedia Holdings International Inc. *(Note 3)* | The Company | Beneficial owner | 26,344,800(L) | 5.21% |
| IDG Investors *(Note 4)* | 91 Wireless | Beneficial owner | 14,582,750(L) | 12.13% |
| NetDragon (BVI) *(Note 5)* | 91 Wireless | Beneficial owner | 73,554,750(L) | 61.20% |

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Notes:

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

2. The IDG Group is comprised of four limited partnerships, namely IDG Technology Venture Investments, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 2.15%, 10.29%, 2.10% and 0.96% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

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

   b) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.

   c) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Ho Chi Sing.

3. Liu Luyuan is interested in 100.00% of the issued share capital of Richmedia Holdings Limited, which in turn is interested in 5.21% of the issued share capital of the Company.

4. The IDG Investors is comprised of three limited partnerships, namely IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., being interested in approximately 9.35%, 1.91% and 0.87%, respectively, in 91 Wireless who are deemed to be acting in concert to acquire interests in 91 Wireless, and its respective controlling entities. The controlling structure of each of the above partnerships is stated in Note 2.

5. The 73,554,750 shares of 91 Wireless held by NetDragon(BVI) were preferred shares comprising of 71,151,000 series A preferred 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 31 December 2012.

## CONNECTED TRANSACTIONS

### ND STRUCTURE CONTRACTS

*ND Cooperation Framework Agreement*

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

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

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

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

## CONNECTED TRANSACTIONS (Cont'd)

### ND STRUCTURE CONTRACTS (Cont'd)

*ND Cooperation Framework Agreement (Cont'd)*

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

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

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

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

## CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

*ND Cooperation Framework Agreement (Cont'd)*

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

*ND Equity Interest Pledge Agreement*

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

*ND Agreement for the Exclusive Right to Acquire Equity Interest and Assets*

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

## CONNECTED TRANSACTIONS (Cont'd)

### STRUCTURE CONTRACTS (Cont'd)

*ND Equity Holders' Voting Rights Proxy Agreement*

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

*ND Other Contracts*

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

The Directors expect that there may be other contracts, such as service agreement and/or cooperation and license agreement, to be entered from time to time (together with the Original Service Agreement and the Existing Service Agreement, the "ND Other Contract(s)") between the Company and its subsidiaries on the one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other after NetDragon (Shanghai) has obtained the requisite licenses for providing Internet content and operating online games. Save as the Original Service Agreement and the Existing Service Agreement, as at 31 December 2012, no ND Other Contract has been entered into.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS (Cont'd)

### Waiver from the Stock Exchange and Annual Review

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

The Company's independent non-executive Directors have reviewed the ND Structure Contracts and the ND Other Contracts and confirmed that the relevant transactions carried out thereunder during the year ended 31 December 2012 have been entered into in accordance with the relevant provisions of the ND Structure Contracts and the ND Other Contracts, have been operated so as to allow the economic interest generated by NetDragon (Fujian) and NetDragon (Shanghai) to be flowed to TQ Digital and TQ Online and the Existing Service Agreement was entered into on terms that are fair and reasonable so far as the Company is concerned and in the interests of the shareholders of the Company as a whole.

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

## CONNECTED TRANSACTIONS (Cont'd)

### 91 STRUCTURE CONTRACTS

*91 Cooperation Framework Agreement*

With a view to offer further protection to the interests of the 91 Wireless and its shareholders as a whole by means of contractual arrangements, Fuzhou BoYuan Wireless and Fujian Bo Rui entered into the 91 structure contracts (the "91 Structure Contracts"), which superseded the cooperation arrangements between Fuzhou BoYuan Wireless and Fujian Bo Rui effective from 30 May 2011.

Under the 91 Structure Contracts, Fujian Bo Rui is responsible to collect the revenue generated from the operation of the mobile Internet business. Through the 91 Structure Contracts, we are able to recognize and receive the economic benefits of the business and operations of Fujian Bo Rui. The 91 Structure Contracts enable Fuzhou BoYuan Wireless to control over and to acquire the equity interests in and/or assets of Fujian Bo Rui when permitted by the relevant PRC laws and regulations.

With a view to offer further protection to the interests of the 91 Wireless and its shareholders as a whole by means of contractual arrangements, NetDragon (Fujian), Fuzhou BoYuan Wireless and/or Fujian Bo Rui, which is cloning the ND Structure Contracts, entered into the 91 Structure Contracts.

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

As a result of the 91 Structure Contracts, Fuzhou BoYuan Wireless is able to control Fujian Bo Rui, accordingly, it is regarded as subsidiary of 91 Wireless and its results are to be consolidated into financial statements of 91 Wireless. Since Fujian Bo Rui was under the common control of the same group of persons before and after our formation, the results and financial positions of Fujian Bo Rui is combined into financial statements of 91 Wireless using merger accounting as if Fujian Bo Rui was part of us since its date of establishment or since the date when it first came under the common control.

## CONNECTED TRANSACTIONS (Cont'd)

91 STRUCTURE CONTRACTS (Cont'd)

*91 Cooperation Framework Agreement (Cont'd)*

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

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

*91 Equity Interest Pledged Agreement*

On 30 May 2011, Fuzhou BoYuan Wireless, Fujian Bo Rui and NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to Fuzhou BoYuan Wireless a continuing first priority security interests over their respective equity interests in the registered capital of Fujian Bo Rui, representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by Fujian Bo Rui's equity holders under the 91 Structure Contracts.

*91 Agreement for the Exclusive Right to Acquire Equity Interest and Assets*

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

*91 Equity Holders' Voting Rights Proxy Agreement*

On 30 May 2011, NetDragon (Fujian) entered into an equity holders' voting rights proxy agreement (the "91 Proxy Agreement") with Fuzhou BoYuan Wireless and Fujian Bo Rui, pursuant to which NetDragon (Fujian) have irrevocably authorised Fuzhou BoYuan Wireless or a nominee designated by Fuzhou BoYuan Wireless (which will likely be a director of Fuzhou BoYuan Wireless) to exercise all their voting rights in Fujian Bo Rui. The term of the 91 Proxy Agreement shall continue indefinitely for so long as Fujian Bo Rui subsists in order to secure our control over Fujian Bo Rui.

## CONNECTED TRANSACTIONS (Cont'd)

### BEST ASSISTANT STRUCTURE CONTRACTS

*Best Assistant Cooperation Framework Agreement*

With a view to offer further protection to the interests of the Best Assistant Education Online Limited ("Best Assistant (Cayman)") and its shareholders as a whole by means of contractual arrangements, Fujian Tianquan Education Technology Limited ("Fujian Tianquan") and Fujian Best Assistant Education Technology Limited ("Fujian Best Assistant") entered into the Best Assistant Structure Contracts (the "Best Assistant Structure Contracts").

Under the Best Assistant Structure Contracts, Fujian Best Assistant is responsible to collect the revenue generated from the operation of the educational softwares business. Through the Best Assistant Structure Contracts, we are able to recognize and receive the economic benefits of the business and operations of Fujian Best Assistant. The Best Assistant Structure Contracts enable Fujian Tianquan to control over and to acquire the equity interests in and/or assets of Fujian Best Assistant when permitted by the relevant PRC laws and regulations.

With a view to offer further protection to the interests of Best Assistant (Cayman) and its shareholders as a whole by means of contractual arrangements, NetDragon (Fujian), Fujian Tianquan and/or Fujian Best Assistant, which is cloning the ND Structure Contracts, entered into the Best Assistant Structure Contracts.

On 22 August 2012, Fujian Tianquan and Fujian Best Assistant entered into a cooperation framework agreement (the "Best Assistant Coorperation Framework Agreement") pursuant to which Fujian Tianquan and Fujian Best Assistant agreed to cooperate in the provision of services relating to the educational softwares business development for and the operation of the educational softwares business of Fujian Best Assistant. The Best Assistant Cooperation Framework Agreement and the terms of reference of the management committee (the "Best Assistant Management Committee") laid down the principles that the Best Assistant Management Committee shall have right to determine the amount of license and service fees payable by Fujian Best Assistant with reference to the amount of expenditure incurred by Fujian Best Assistant in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) Fujian Best Assistant shall pay the maximum amount of fees to Fujian Tianquan without incurring any loss for each financial year; and (ii) the net asset value of Fujian Best Assistant shall not exceed approximately RMB15,000,000. Further details of Best Assistant Management Committee are set out in the section of "Corporate Governance Report" under the paragraphs of "Best Assistant Management Committee". This principle will ensure that all of the net profit after tax of Fujian Best Assistant in each financial year shall be paid to Fujian Tianquan as service or license fees, and will give flexibility to the Best Assistant Management Committee to implement the Best Assistant Structure Contracts and its underlying principles more effectively in response to constantly changing the PRC laws and regulation.

As a result of the Best Assistant Structure Contracts, Fujian Tianquan is able to control Fujian Best Assistant, accordingly, it is regarded as subsidiary of Best Assistant (Cayman) and its results are to be consolidated into financial statements of Best Assistant (Cayman). Since Fujian Best Assistant was under the common control of the same group of persons before and after our formation, the results and financial positions of Fujian Best Assistant is combined into financial statements using merger accounting as if Fujian Best Assistant was part of us since its date of establishment or since the date when it first came under the common control.

## CONNECTED TRANSACTIONS (Cont'd)

### BEST ASSISTANT STRUCTURE CONTRACTS (Cont'd)

*Best Assistant Cooperation Framework Agreement (Cont'd)*

In accordance with the terms of the Best Assistant Cooperation Framework Agreement, Fujian Tianquan (where relevant) entered into the technical support service agreements with Fujian Best Assistant, for the purpose of license, development of educational softwares business and provision of technical services to Fujian Best Assistant. Details of the agreement are set out below:

| Date of agreement signed | Name of agreement | Summary of agreement | Terms of agreement |
|---|---|---|---|
| 22-08-2012 | Technical support service agreement | Fujian Tianquan will provide technical support services to Fujian Best Assistant | • 10 years commencing from 22-08-2012 to 21-08-2022<br>• Consideration of a per annum services fee determined as a percentage of Fujian Best Assistant annual gross revenues |

*Best Assistant Equity Interest Pledged Agreement*

On 22 August 2012, Fujian Tianquan, Fujian Best Assistant and NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to Fujian Tianquan a continuing first priority security interests over their respective equity interests in the registered capital of Fujian Best Assistant, representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by Fujian Best Assistant's equity holders under the Best Assistant Structure Contracts.

*Best Assistant Agreement for the Exclusive Right to Acquire Equity Interest and Assets*

On 22 August 2012, Fujian Tianquan, Fujian Best Assistant and NetDragon (Fujian) entered into an agreement for the exclusive right to acquire equity interest and assets, pursuant to which Fujian Best Assistant and NetDragon (Fujian) granted to Fujian Tianquan or its designee (a) a right to acquire part or all of the equity interest in the registered capital of Fujian Best Assistant; and (b) a right to acquire part or all of the assets of Fujian Best Assistant from NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by Fujian Tianquan to NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law.

*Best Assistant Equity Holders' Voting Rights Proxy Agreement*

On 22 August 2012, NetDragon (Fujian) entered into an equity holders' voting rights proxy agreement (the "Best Assistant Proxy Agreement") with Fujian Tianquan and Fujian Best Assistant, pursuant to which NetDragon (Fujian) have irrevocably authorised Fujian Tianquan or a nominee designated by Fujian Tianquan (which will likely be a director of Fujian Tianquan) to exercise all their voting rights in Fujian Best Assistant. The term of the Best Assistant Proxy Agreement shall continue indefinitely for so long as Fujian Best Assistant subsists in order to secure our control over Fujian Best Assistant.

## CONTINUING CONNECTED TRANSACTIONS

Certain transactions (the "Transactions") entered into by the Group constituted continuing connected transactions under the Listing Rules. Each of the Transactions falls within the ambit of Rule 14A.34 of the Listing Rules and is subject to reporting and announcement requirements but exempt from the independent shareholders' approval under Chapter 14A of the Listing Rules. Details of the Transactions subsisted during the year under review are set out as follows:

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

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

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

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

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

   On 19 January 2012, TQ Digital entered into the renewal tenancy agreement (the "Renewal Tenancy Agreement I") with Fuzhou 851 to renew the 851 Tenancy Agreement I and NetDragon (Fujian) entered into the renewal tenancy agreement (the "Renewal Tenancy Agreement II") with Fuzhou 851 to renew the 851 Tenancy Agreement II. Fuzhou 815 is a connected person of the Company. As such, the transactions contemplated under the Renewal Tenancy Agreement I and the Renewal Tenancy Agreement II (collectively the "Renewal Tenancy Agreements") constitute continuing connected transactions of the Company and should be aggregated under the Listing Rules. The aggregate annual cap for the Renewal Tenancy Agreements based on the total annual rental payable under the Renewal Tenancy Agreements for each of the financial years ending 31 December 2012, 2013 and 2014 is RMB6,816,000 (equivalent to approximately HKD8,375,000).

   Further details of the Renewal Tenancy Agreements are set forth in the announcement of the Company dated 19 January 2012.

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

On 24 April 2009, TQ Digital entered into a recreation centre service agreement (the "Recreation Centre Agreement") with Fuzhou 851, pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at a recreation centre (the "Recreation Centre") situated at Fuzhou City, Fujian Province, the PRC to the Group and its staff for a period from 25 April 2009 to 24 April 2012 at a monthly fee of RMB500,000 (equivalent to approximately HKD567,500). Upon the entering into of the 91 Structure Contracts and to segregate the obligations between TQ Digital and Fujian Bo Rui, Fujian Bo Rui entered into two separate agreements with Fuzhou 851 on 10 August 2011 and 5 December 2011, respectively, in relation to the same services regarding the usage of recreation facilities for the periods from 14 August 2011 to 31 December 2011 and from 1 January 2012 to 24 April 2012, respectively. The total expected fee and the annual cap under the Recreation Centre Agreement remain unchanged.

Fuzhou 851 is a connected person of the Company under the Listing Rules. The transactions contemplated under the Recreation Centre Agreement constitute continuing connected transactions of the Company under the Listing Rules. The annual cap based on the total annual service fee payable under the Recreation Centre Agreement for each of the financial years ended 31 December 2009, 2010 and 2011 on annual basis should not exceed RMB6,000,000 (equivalent to approximately HKD6,810,000), being the monthly service fee of RMB500,000 (equivalent to approximately HKD567,500) multiplied by 12 months. Further details of the Recreation Centre Agreement are set out in the announcement of the Company dated 27 April 2009.

On 25 April 2012, TQ Digital entered into a renewal recreation centre service agreement (the "Renewal Recreation Centre Agreement") with Fuzhou 851, pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at the Recreation Centre to the Group and its staff (excluding 91 Wireless and its subsidiaries ("91 Group") and its staff) for a period from 25 April 2012 to 24 April 2015 at an annual fee of RMB5,000,000 (equivalent to approximately HKD6,166,000).

On 25 April 2012, Fujian Bo Rui entered into a new recreation centre service agreement (the "New Recreation Centre Agreement") with Fuzhou 851, pursuant to which Fuzhou 851 agreed to provide certain services regarding the usage of various recreation facilities at the Recreation Centre to 91 Group and its staff for a period from 25 April 2012 to 24 April 2015 at an annual fee of RMB1,500,000 (equivalent to approximately HKD1,850,000).

Further details of the Renewal Recreation Centre Agreement and New Recreation Centre Agreement are set forth in the announcement of the Company dated 25 April 2012.

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

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

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

Since the Service Agreement was expired on 31 December 2009, the Board announced that NetDragon (Fujian) entered into the new service agreement (the "Service Agreement A") with Fuzhou Tianliang on 29 December 2009, pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2010 to 31 December 2012.

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

Upon the entering into of the 91 Structure Contracts and to segregate the obligations between TQ Digital, NetDragon (Fujian) and Fujian Bo Rui, Fujian Bo Rui entered into a separate agreement and a supplementary agreement ("Service Agreement B") with Fuzhou Tianliang on 5 September 2011 and 1 January 2012, respectively, in relation to the after-sales service for the period from 5 September 2011 to 31 December 2012. The total expected fee and the annual cap under the Service Agreement A remain unchanged. The annual caps for the transactions under the Service Agreement A for each of the financial years ended 31 December 2010, 2011 and 2012 are as follows:

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

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

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

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

On 28 December 2012, (a) NetDragon (Fujian) entered into a new service agreement ("the New Service Agreement A") with Fuzhou Tianliang to renew the Service Agreement A, pursuant to which Fuzhou Tianliang agreed to provide (i) computer system repair and maintenance service; and (ii) after-sales service to NetDragon (Fujian) for a period from 1 January 2013 to 31 December 2015; and (b) Fujian Bo Rui entered into a new service agreement ("the New Service Agreement B") with Fuzhou Tianliang to renew the Service Agreement B, pursuant to which Fuzhou Tianliang agreed to provide after-sales service to Fujian Bo Rui for a period from 1 January 2013 to 31 December 2015.

The Directors estimate that the aggregate annual caps of the New Service Agreements A and the New Service Agreement B (collectively, the "New Service Agreements") for each of the three years ending 31 December 2015 are as follows:

| | **Year ending 31 December 2013** | **Year ending 31 December 2014** | **Year ending 31 December 2015** |
|---|---|---|---|
| | RMB | RMB | RMB |
| **NetDragon (Fujian) under the New Service Agreement A** | | | |
| Technical maintenance fees | 3,977,000 | 4,326,000 | 4,569,000 |
| After-sales service charges | 18,560,000 | 20,187,000 | 21,322,000 |
| | 22,537,000 | 24,513,000 | 25,891,000 |
| **Fujian Bo Rui under the New Service Agreement B** | | | |
| After-sales service charges | 6,092,000 | 8,744,000 | 10,000,000 |
| Total: | 28,629,000 | 33,257,000 | 35,891,000 |

Further details of the New Service Agreements are set forth in the announcement of the Company dated 28 December 2012.

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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

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

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

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

On 25 October 2012, TQ Digital entered into a termination agreement (the "Termination Agreement I") with Fujian Bo Rui, whereby TQ Digital and Fujian Bo Rui agreed to terminate the Tenancy Agreement I with immediate effect and TQ Digital entered into the a termination agreement (the "Termination Agreement II", together with "Termination Agreement I" are collectively referred to as "Termination Agreements") with Fuzhou BoYuan Wireless whereby TQ Digital and Fuzhou BoYuan Wireless agreed to terminate the Tenancy Agreement II with immediate effect.

Further details of the Termination Agreements and the TQ Tenancy Agreements are set out on the announcements of the Company dated 28 December 2011 and 25 October 2012.

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

5. Transaction in relation to Server Maintenance Contracts between NetDragon (Fujian), Fujian Bo Rui and Fujian Bo Dong

On 25 October 2012, Fujian Bo Rui, a subsidiary of 91 Wireless, entered into a server maintenance contract (the "Server Maintenance Contract A") with NetDragon (Fujian), a subsidiary of the Company, pursuant to which NetDragon (Fujian) agreed to provide maintenance management services to Fujian Bo Rui on certain servers owned by Fujian Bo Rui from 25 October 2012 to 24 October 2015. Based on the terms of the Server Maintenance Contract A, the Aggregate Annual Cap for the periods from 25 October 2012 to 24 October 2013, from 25 October 2013 to 24 October 2014 and from 25 October 2014 to 24 October 2015 will not exceed RMB1,540,690 (equivalent to approximately HK$1,892,902), RMB3,376,160 (equivalent to approximately HK$4,147,973) and RMB6,008,140 (equivalent to approximately HK$7,381,642), respectively.

On 25 October 2012, Fujian Bo Dong, a subsidiary of 91 Wireless, entered into a server maintenance contract (the "Server Maintenance Contract B", together with "Server Maintenance A" are collectively referred to as "Server Maintenance Contracts") with NetDragon (Fujian), a subsidiary of the Company, pursuant to which NetDragon (Fujian) agreed to provide maintenance management services to Fujian Bo Dong on certain servers owned by Fujian Bo Dong from 25 October 2012 to 24 October 2015. Based on the terms of the Server Maintenance Contract B, the Aggregate Annual Cap for the Server Maintenance Contract B for the periods from 25 October 2012 to 24 October 2013, from 25 October 2013 to 24 October 2014 and from 25 October 2014 to 24 October 2015 will not exceed RMB385,910 (equivalent to approximately HK$474,132), RMB813,040 (equivalent to approximately HK$998,907) and RMB1,446,860 (equivalent to approximately HK$1,777,622), respectively.

Fujian Bo Rui, through the 91 Structure Contracts, is regarded as a subsidiary of Fuzhou BoYuan Wireless. Each of Fujian Bo Dong and Fuzhou BoYuan Wireless is an indirect wholly owned subsidiary of 91 Wireless. 91 Wireless is considered as a connected person of the Company under the Listing Rules and each of Fujian Bo Rui and Fujian Bo Dong is considered as a connected person of the Company under Listing Rules. The transactions under each of the Server Maintenance Contracts constitute continuing connected transactions of the Company under the Listing Rules. Further details of the Server Maintenance Contracts are set out on the announcement of the Company dated 25 October 2012.

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

6. Transaction in relation to Promotion and Operation Cooperation Framework Agreement between the Company and 91 Wireless

On 9 November 2012, the Company entered into the promotion and operation cooperation framework agreement (the "Old Cooperation Agreement") with 91 Wireless, pursuant to which the Company has agreed to grant a worldwide rights to 91 Wireless to (i) carry out research and development on all or part of the mobile Internet versions of the MMORPGs and other wireless products and their respective applications; and (ii) promote all mobile Internet versions of the MMORPGs and other wireless products and their respective applications. The Old Cooperation Agreement shall be valid from 9 November 2012 to 8 November 2015.

Further details of the Old Cooperation Agreement are set out on the announcement of the Company dated 9 November 2012.

In order for 91 Group to concentrate on the development of its mobile Internet apps business, on 1 February 2013, the Company entered into the new promotion and operation cooperation framework agreement (the "New Cooperation Agreement") with 91 Wireless to supersede the Old Cooperation Agreement. Pursuant to the New Cooperation Agreement, (i) the Group has agreed to grant a non-exclusive right to 91 Group in relation to carrying out the adaptation works ("Adaptation Works") on the mobile Internet games owned by the Group; (ii) the 91 Group shall have the right to promote ("Promotion Works") and distribute the mobile Internet games and mobile Internet apps owned during the effective period of the New Cooperation Agreement by the Group or that will be owned; and (iii) 91 Group shall sell the copyrights of certain mobile Internet games to the Group at a consideration of approximately RMB4.2 million (equivalent to approximately HKD5.2 million). The New Cooperation Agreement shall be valid from 1 February 2013 to 31 December 2015.

Pursuant to the New Cooperation Agreement, the annual caps for each of the Adaptation Works and Promotion Works are as follows:

| | **For the year ending 31 December 2013**<br>RMB | **For the year ending 31 December 2014**<br>RMB | **For the year ending 31 December 2015**<br>RMB |
|---|---|---|---|
| Annual cap for Adaptation Works | 11,422,000 (equivalent to approximately HKD14,112,000) | 11,993,000 (equivalent to approximately HKD14,817,000) | 12,593,000 (equivalent to approximately HKD15,559,000) |
| Annual cap for Promotion Works | 12,459,000 (equivalent to approximately HKD15,393,000) | 14,451,000 (equivalent to approximately HKD17,854,000) | 13,879,000 (equivalent to approximately HKD17,148,000) |

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

6. Transaction in relation to Promotion and Operation Cooperation Framework Agreement with 91 Wireless (Cont'd)

Further details of the New Cooperation Agreement are set out on the announcement of the Company dated 1 February 2013.

The independent non-executive Directors have reviewed the above Transactions conducted during the year ended 31 December 2012 and confirmed that these Transactions:

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

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

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

(iv) have not exceeded their respective annual caps for the year ended 31 December 2012 as disclosed in the relevant announcements of the Company.

The transactions under the 851 Tenancy Agreements, the Renewal Tenancy Agreements, the Recreation Centre Agreement, the Renewal Recreation Centre Agreement, the New Recreation Centre Agreement, the Service Agreement A, the Service Agreement B, the New Service Agreement A, the New Service Agreement B, the Server Maintenance Contracts and the Old Cooperation Agreement are also disclosed in note 42 of the Notes to the Consolidated Financial Statements as related party transactions of the Group. For further details of the nature and extent of each of the connected person's interest in each of the Transactions, please refer to the section headed "Corporate Governance Report - Directors' Interest In Contract" below.

In addition, the Company has engaged its auditor to report on the ND Structure Contracts, the ND Other Contracts, the 91 Structure Contracts and the Transactions under the 851 Tenancy Agreements, the Renewal Tenancy Agreements, the Recreation Centre Agreement, the Renewal Recreation Centre Agreement, the New Recreation Centre Agreement, the Service Agreement A, the Service Agreement B, the New Service Agreement A, the New Service Agreement B, the Server Maintenance Contracts and the Old Cooperation Agreement of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified letters containing the conclusions in respect of the ND Structure Contracts, the ND Other Contracts, the 91 Structure Contracts and the Transactions under the 851 Tenancy Agreements, the Renewal Tenancy Agreements, the Recreation Centre Agreement, the Renewal Recreation Centre Agreement, the New Recreation Centre Agreement, the Service Agreement A, the Service Agreement B, the New Service Agreement A, the New Service Agreement B, the Server Maintenance Contracts and the Old Cooperation Agreement set out above which are in compliance with the Rule 14A.38 of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS (Cont'd)

No similar auditors' letter has been prepared for the Best Assistant Structure Contracts because there were no operating profit for the operating entities under the Best Assistant Structure Contracts for the year ended 31 December 2012.

## CONNECTED TRANSACTIONS

1. Issue of promissary notes by 91 Wireless

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

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

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

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

2. Issue of Series B Preferred Shares by 91 Wireless to NetDragon (BVI)

   On 10 February 2012, NetDragon (BVI) entered into a subscription agreement (the "BVI Subscription Agreement") with 91 Wireless who is connected persons of the Company. Pursuant to the BVI Subscription Agreement, 91 Wireless agreed to issue and allot 2,403,750 Series B Preferred Shares to NetDragon (BVI) for a total consideration of US$3,000,000.

   All conditions precedent under the BVI Subscription Agreement had been fulfilled or waived and the closing of the BVI Subscription Agreement (the "BVI Closing") took place on 17 February 2012. 91 Wireless issued 2,403,750 Series B Preferred Shares to NetDragon (BVI).

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

## BOARD PRACTICES AND PROCEDURES

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

## PRE-EMPTIVE RIGHTS

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

## COMPETITION AND CONFLICT OF INTERESTS

Save as disclosed in the Listing Document, none of the Director or any of their respective associates, as defined in the Listing Rules, has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at 31 December 2012 and as at the date of this report.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2012, the Company repurchased a total of 9,635,500 shares on the Stock Exchange at an aggregate consideration of HKD55,946,260 before expenses.

Details of the share repurchase are as follows:

| Month of purchase | Number of ordinary shares repurchased | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | HKD | HKD | HKD |
| June 2012 | 9,635,500 | 6.45 | 5.07 | 55,946,260 |

## PUBLIC FLOAT

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

# REPORT OF THE DIRECTORS

## 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 year ended 31 December 2012 are as follows:

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| **Grantee** | **Date of grant** | **Exercise Price** | **As at 1 January 2012** | **Granted** | **Exercised** | **Lapsed** | **As at 31 December 2012** |
| | | HKD | | | | | |
| **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 | – | 100,000 | – | 300,000 |
| | 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 | – | 209,193 | 1,124,520 | 11,867,687 |
| | 22.07.2011 | 4.60 | 1,314,500 | – | 39,970 | 186,750 | 1,087,780 |
| | 23.04.2012 | 5.74 | – | 2,034,000 | – | 56,000 | 1,978,000 |
| | 06.07.2012 | 6.53 | – | 735,250 | – | – | 735,250 |
| | 12.09.2012 | 7.20 | – | 117,500 | – | – | 117,500 |
| Total | | | 23,651,900 | 4,086,750 | 349,163 | 1,367,270 | 26,022,217 |

## SHARE OPTION SCHEME (Cont'd)

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 year under review, 100,000 share options were exercised by a Director of the Company.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the Main Board Share Option Scheme disclosed above and set out in note 36 of Notes to the Consolidated Financial Statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

## SHARE AWARD SCHEME

The Company

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

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

On 31 December 2012, 1,587,000 awarded shares were granted to a number of selected participants. The awarded shares, which were purchased at the awarded amount of HKD16,094,000, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents prescribed by the Trustee and duly signed by the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee and (ii) a confirmation from the Company that all vesting conditions having been fulfilled.

## SHARE AWARD SCHEME (Cont'd)

The Company (Cont'd)

Among the 1,587,000 awarded shares granted, a total of 591,057 awarded shares were granted to the Directors.

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

As at 31 December 2012, details of the awarded shares under the Share Award Scheme were as follows:

| **Average price per share (HKD)** *(Note)* | **As at 1 January 2012** | **Number of shares Vested during the year** | **Number of shares granted during the year** | **As at 31December 2012** |
|---|---|---|---|---|
| 5.07 | 79,677 | (79,677) | 1,587,000 | 1,587,000 |

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

91 Wireless

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

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

As at 31 December 2012, 9,615,000 awarded shares (among the 2,981,300 shares awarded on 8 February 2012, 117,550 shares were returned shares pursuant to the rules of the 91 Share Award Scheme and re-granted on 31 December 2012) were granted to a number of selected participants. The awarded shares, which were purchased at par value of USD0.0001 per share by the Trustee from Treasure New Limited, an indirect wholly owned subsidiary of the Company, will be transferred to the selected participants at nil consideration. Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) a confirmation from 91 Wireless that all vesting conditions having been fulfilled, the award shares will be transferred to the selected participants at nil consideration upon vesting.

## SHARE AWARD SCHEME (Cont'd)

91 Wireless (Cont'd)

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

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

Best Assistant (Cayman)

On 7 August 2012, Best Assistant (Cayman) adopted a share award scheme (the "Best Assistant Share Award Scheme") in which selected participants of Best Assistant (Cayman) and/or its subsidiaries are entitled to participate. Subject to early termination by the board of directors of Best Assistant (Cayman), 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 (Cayman) from time to time or such number of shares as determined by the board of directors of Best Assistant (Cayman).

Pursuant to the rules of the Best Assistant Share Award Scheme, Best Assistant (Cayman) 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 (Cayman) that all vesting conditions having been fulfilled, the awarded shares will be transferred to the selected participants at nil consideration upon vesting.

As at 31 December 2012, no awarded shares were granted under the Best Assistant Share Award Scheme.

## AUDITOR

The financial statements for the year ended 31 December 2012 have been audited by Deloitte Touche Tohmatsu ("Deloitte"), the auditor of the Company. A resolution will be submitted in the AGM of the Company to re-appoint Deloitte as auditor of the Company.

On behalf of the Board
*Chairman*
**Liu Dejian**

Hong Kong, 27 March 2013

# CORPORATE GOVERNANCE REPORT

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established its code of conduct regarding securities transaction by Directors, senior management and relevant employees on terms no less exacting than the required standard indicated by the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code during the period under review.

## THE BOARD

The Board is composed of four executive Directors (including the Chairman and the Chief Executive Officer of the Company) and four non-executive Directors (of whom three are independent non-executive Directors), whose biographical details are set out in "Directors and Senior Management" section on pages 59 to 64. Save as disclosed herein, none of the members of the Board has any financial, business, family or other material relevant relationship to one another.

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

### Duties of the Board including delegation to management

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

Duties of the Board include:

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

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

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

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

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

During the year, the Board held four meetings and the attendance of each of the Directors at Board, committee and general meetings held in 2012 is set out below:

| Directors | Full Board | Audit Committee | Remuneration Committee | Nomination Committee | Share Award Scheme Committee | Annual General Meeting |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Liu Dejian (Chairman) | 7/7 | N/A | N/A | N/A | N/A | 1/1 |
| Liu Luyuan (Chief Executive Officer) | 6/7 | N/A | N/A | N/A | N/A | 0/1 |
| Zheng Hui | 7/7 | N/A | N/A | N/A | N/A | 1/1 |
| Chen Hongzhan | 7/7 | N/A | N/A | N/A | N/A | 1/1 |
| **Non-executive Director** | | | | | | |
| Lin Dongliang | 7/7 | N/A | N/A | N/A | N/A | 0/1 |
| **Independent non-executive Directors** | | | | | | |
| Chao Guowei, Charles | 6/7 | 4/4 | 1/1 | 1/1 | N/A | 0/1 |
| Lee Kwan Hung | 7/7 | 4/4 | 1/1 | 1/1 | N/A* | 1/1 |
| Liu Sai Keung, Thomas | 7/7 | 4/4 | 1/1 | 1/1 | N/A* | 0/1 |

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

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

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

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

## DIRECTORS' INTEREST IN CONTRACT

With reference to the ND Structure Contracts entered into between TQ Digital, TQ Online and NetDragon (Fujian), the executive Directors Liu Dejian, Liu Luyuan and Zheng Hui, are interested in an aggregate of 98.86% in NetDragon (Fujian). NetDragon (Shanghai), being a subsidiary of NetDragon (Fujian), is technically an associate of Liu Dejian, Liu Luyuan and Zheng Hui, and therefore connected persons of the Company. Transactions between the Company, NetDragon (BVI), TQ Digital, TQ Online, NetDragon (Hong Kong) or NetDragon (USA) (all being wholly-owned subsidiaries of the Company) on one hand and NetDragon (Fujian) or NetDragon (Shanghai) on the other hand, including the ND Structure Contracts and the ND Other Contracts would technically constitute connected transactions. Details for the ND Structure Contracts and the ND Other Contracts are set out in pages 74 to 78 in the section of "Report of the Directors" under the paragraphs of "ND Structure Contracts".

* The Share Award Scheme Committee of the Company did not hold any meeting during the year under review.

# CORPORATE GOVERNANCE REPORT

With reference to the 91 Structure Contracts entered into between Fujian Bo Rui, Fuzhou BoYuan Wireless, an indirect wholly owned subsidiary of 91 Wireless, and NetDragon (Fujian), which held all equity interests of Fujian Bo Rui under the laws of the PRC, through the 91 Structure Contracts, Fuzhou BoYuan Wireless is able to control Fujian Bo Rui and accordingly, Fujian Bo Rui will be regarded as a subsidiary of Fuzhou BoYuan Wireless. As the IDG Investors are members of the IDG Group which is a substantial shareholder of the Company and are entitled to exercise 10% or more of voting power at an general meeting of 91 Wireless, and therefore connected persons of the Company. Transactions between the Company or its subsidiaries except 91 Wireless and the subsidiaries of 91 Wireless (the "91 Group Companies") on the one hand, and 91 Wireless or 91 Group Companies on the other hand, the 91 Structure Contracts would technically constitute connected transactions. Details for the 91 Structure Contracts are set out in pages 79 to 80 in the section of "Report of the Directors" under the paragraphs of "91 Structure Contracts".

With reference to the Best Assistant Structure Contracts entered into between Fujian Tianquan, Fujian Best Assistant, an indirect wholly owned subsidiary of Best Assistant (Cayman), and NetDragon (Fujian), which is technically an associate of Liu Dejian, Liu Luyuan and Zheng Hui,and therefore connected persons of the Company. Transactions between the Company or its subsidiaries, except Best Assistant (Cayman) and subsidiaries of Best Assistant (Cayman) (the "Best Assistant Group Companies") on one hand and Best Assistant (Cayman) or Best Assistant Group Companies on the other hand, including the Best Assistant Structure Contracts would technically constitute connected transactions. Details for the Best Assistant Structure Contracts are set out in pages 81 to 82 in the section of "Report of the Directors" under the paragraphs of "Best Assistant Structure Contracts".

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

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

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

With reference to the continuing connected transactions for the Server Maintenance Contracts entered into between NetDragon (Fujian), Fujian Bo Rui and Fujian Bo Dong. Both Fujian Bo Rui and Fujian Bo Dong are subsidiaries of 91 Wireless, thus, are deemed to be connected persons to the Company.

With reference to the continuing connected transactions for the Promotion and Operation Cooperation Framework Agreement entered into between the Company and 91 Wireless, a connected person to the Company.

Details for the continuing connected transactions are set out in pages 83 to 92 in the section of "Report of the Directors" under the paragraphs of "Continuing Connected Transactions".

Save as the above, none of the Directors is materially interested, either directly or indirectly, in any contract of significance of the Company during the year ended 31 December 2012 or as at the end of the year.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

## AUDIT COMMITTEE

The Company established the audit committee (the "Audit Committee") on 15 October 2007 which has adopted written terms of reference in compliance with the CG Code Provision and has held four meetings during 2012. The primary duties of our audit committee are to review and supervise our financial reporting process and internal control systems.

The Audit Committee reviews the quarterly, interim and annual consolidated financial results of the Group. In addition, the Audit Committee also reviews and approves the pricing policy and the performance for the continued connected transactions and connected transactions relating to ND structure contracts, ND other contracts, 91 Structure Contracts and Best Assistant Structure Contracts of the Group.

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

The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company. The Group's audited consolidated financial statements for the year ended 31 December 2012 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## REMUNERATION COMMITTEE

The Company established the remuneration committee on 15 October 2007 which considers and recommends to our Board the remuneration and other benefits paid by us to our Directors and senior management, and has held one meeting during 2012. The remuneration of all our Directors and senior management is subject to regular monitoring by the remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

# CORPORATE GOVERNANCE REPORT

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

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

## EMPLOYEE AND EMOLUMENT POLICY

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

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

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

## NOMINATION COMMITTEE

The Company established a nomination committee on 15 October 2007 which considers and recommends to our Board suitably qualified persons to become our Directors and is responsible for reviewing the structure, size and composition of our Board on a regular basis, and has held one meeting during 2012.

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

Potential new directors are selected on the basis of their qualifications, skill and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

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

## ND MANAGEMENT COMMITTEE

The Company established the ND Management Committee pursuant to the Structure Contracts to oversee the business and operations of NetDragon (Fujian). Through its control over NetDragon (Fujian), the ND Management Committee is also able to oversee the business and operations of NetDragon (Shanghai), being the subsidiary of NetDragon (Fujian).

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

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

## 91 MANAGEMENT COMMITTEE

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

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

## BEST ASSISTANT MANAGEMENT COMMITTEE

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

# CORPORATE GOVERNANCE REPORT

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

## SHARE AWARD SCHEME COMMITTEE

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

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

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

## TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. The Directors confirmed that they have complied with the Code Provision A.6.5 of the CG Code and Report effective on 1 April 2012 on Directors' training. All Directors have participated in continuous professional development by reading materials/in house briefing on regulatory and corporate governance matters to develop and refresh their knowledge.

## DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

## INTERNAL CONTROL

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

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

## AUDITOR'S REMUNERATION

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

| | RMB'000 |
|---|---|
| Audit services | 1,123 |
| Non-audit services | 5,758 |
| | 6,881 |

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

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

## PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, according to article 58 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

## PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The provisions for a shareholder to propose a person for election as a director of the Company are laid down in article 88 of the Company's Articles of Association. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

## PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries to the Company, for the attention of company secretary, by fax: (852) 2850 7066 or mail to Rm 2209, 22/F West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

## SHAREHOLDERS RELATIONS

The Group is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The Company also updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company has provided an effective communication platform to the public and the shareholders.

The market capitalization of the Company as at 31 December 2012 was approximately HKD5,598.9 million (entired issued share capital: 505,313,523 shares) at closing market price: HKD11.08 per share. The public float is around 30%.

The AGM will be held at Plaza Meeting Room, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 24 May 2013.

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**
**德勤**

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

We have audited the consolidated financial statements of NetDragon Websoft Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 109 to 200, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong
27 March 2013

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

| | NOTES | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | **1,108,349** | 760,974 |
| Cost of revenue | | **(116,359)** | (75,032) |
| Gross profit | | **991,990** | 685,942 |
| Other income and gains | 5 | **50,025** | 38,156 |
| Selling and marketing expenses | | **(152,173)** | (140,340) |
| Administrative expenses | | **(247,628)** | (210,941) |
| Development costs | | **(204,173)** | (159,269) |
| Other expenses | | **(27,214)** | (11,594) |
| Share of losses of associates | | **(1,456)** | (581) |
| Share of loss of a jointly controlled entity | | **(1,391)** | – |
| **Operating profit** | | **407,980** | 201,373 |
| Interest income on pledged bank deposit | | **4,849** | – |
| Exchange gain on pledged bank deposit, secured bank loan and redeemable convertible preferred shares | | **11,909** | – |
| Net loss on derivative financial instruments | 32 & 33 | **(282,424)** | (17,792) |
| Finance costs | 6 | **(28,417)** | (3,806) |
| **Profit before taxation** | | **113,897** | 179,775 |
| Taxation | 8 | **(74,936)** | (44,532) |
| **Profit for the year** | 9 | **38,961** | 135,243 |
| Other comprehensive expenses: | | | |
| Exchange differences arising on translation of foreign operations | | **(64)** | (1,452) |
| Total comprehensive income for the year | | **38,897** | 133,791 |
| Profit for the year attributable to: | | | |
| – Owners of the Company | | **39,176** | 135,161 |
| – Non-controlling interests | | **(215)** | 82 |
| | | **38,961** | 135,243 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

| | NOTES | **2012** | 2011 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| Total comprehensive income attributable to: | | | |
| – Owners of the Company | | **39,112** | 133,709 |
| – Non-controlling interests | | **(215)** | 82 |
| | | **38,897** | 133,791 |
| | | **RMB cents** | RMB cents |
| **Earnings per share** | 12 | | |
| – Basic | | **7.71** | 25.85 |
| – Diluted | | **7.60** | 25.85 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

| | NOTES | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **345,415** | 192,119 |
| Prepaid lease payments | 14 | **139,678** | 86,298 |
| Investment property | 15 | **16,217** | 15,809 |
| Deposit paid for acquisition of land use rights | 16 | **–** | 19,050 |
| Intangible assets | 17 | **2,626** | 4,520 |
| Interests in associates | 18 | **11,793** | 12,669 |
| Interest in a jointly controlled entity | 19 | **18,015** | – |
| Available-for-sale investments | 20 | **5,000** | 4,000 |
| Loan receivables | 21 | **9,969** | 6,314 |
| Goodwill | 22 | **12,534** | – |
| Deferred tax assets | 23 | **1,586** | 54 |
| | | **562,833** | 340,833 |
| **Current assets** | | | |
| Prepaid lease payments | 14 | **2,902** | 1,784 |
| Loan receivables | 21 | **3,143** | 1,091 |
| Trade receivables | 24 | **61,427** | 41,555 |
| Other receivables, prepayments and deposits | | **72,101** | 41,429 |
| Held for trading investments | 25 | **4,939** | – |
| Amounts due from related companies | 26 | **3,637** | 1,200 |
| Amount due from a jointly controlled entity | 27 | **3,060** | – |
| Pledged bank deposit | 28 | **194,405** | – |
| Bank deposits | 28 | **394,081** | 40,000 |
| Bank balances and cash | 28 | **1,142,825** | 1,428,928 |
| | | **1,882,520** | 1,555,987 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

| | NOTES | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 29 | **222,137** | 126,354 |
| Deferred income | | **24,778** | 25,528 |
| Amounts due to related companies | 30 | **121** | 965 |
| Amount due to an associate | 30 | **5,600** | – |
| Secured bank loan | 31 | **183,595** | – |
| Other financial liability | 32 | **10,679** | – |
| Promissory notes | 34 | **–** | 30,623 |
| Income tax payable | | **66,355** | 42,849 |
| | | **513,265** | 226,319 |
| **Net current assets** | | **1,369,255** | 1,329,668 |
| **Total assets less current liabilities** | | **1,932,088** | 1,670,501 |
| **Non-current liabilities** | | | |
| Redeemable convertible preferred shares | 33 | **195,115** | 131,675 |
| Conversion option derivative liability | 33 | **314,829** | 39,932 |
| Deferred tax liabilities | 23 | **6,141** | – |
| | | **516,085** | 171,607 |
| **Net assets** | | **1,416,003** | 1,498,894 |
| **Capital and reserves** | | | |
| Share capital | 35 | **37,532** | 38,226 |
| Share premium and reserves | | **1,356,317** | 1,461,126 |
| Equity attributable to owners of the Company | | **1,393,849** | 1,499,352 |
| Non-controlling interests | | **22,154** | (458) |
| | | **1,416,003** | 1,498,894 |

The consolidated financial statements on pages 109 to 200 were approved and authorised for issue by the Board of Directors on 27 March 2013 and are signed on its behalf by:

DIRECTOR

DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

| | Attributable to owners of the Company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Capital redemption reserve RMB'000 (Note a) | Other reserve RMB'000 (Note b) | Capital reserve RMB'000 (Note c) | Statutory reserves RMB'000 (Note d) | Dividend reserve RMB'000 | Revaluation reserve RMB'000 | Treasury share reserve RMB'000 (Note e) | Employee share-based compen-sation reserve RMB'000 | Translation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 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 year | – | – | – | – | – | – | – | – | – | – | – | 135,161 | 135,161 | 82 | 135,243 |
| Other comprehensive expenses for the year | – | – | – | – | – | – | – | – | – | – | (1,452) | – | (1,452) | – | (1,452) |
| Total comprehensive (expenses) income for the year | – | – | – | – | – | – | – | – | – | – | (1,452) | 135,161 | 133,709 | 82 | 133,791 |
| Deemed contribution from a substantial shareholder | – | – | – | 2,209 | – | – | – | – | – | – | – | – | 2,209 | – | 2,209 |
| Repurchase and cancellation of shares | (1,038) | (44,359) | 1,038 | – | – | – | – | – | – | – | – | (1,038) | (45,397) | – | (45,397) |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | – | 10,085 | – | – | 10,085 | – | 10,085 |
| Final dividend for 2010 paid | – | – | – | – | – | – | (8,994) | – | – | – | – | – | (8,994) | – | (8,994) |
| Interim dividend for 2011 declared and paid | – | – | – | – | – | – | – | – | – | – | – | (43,957) | (43,957) | – | (43,957) |
| Final dividend for 2011 proposed | – | – | – | – | – | – | 50,062 | – | – | – | – | (50,062) | – | – | – |
| Awarded shares vested to employees | – | – | – | – | – | – | – | – | 942 | (570) | – | (372) | – | – | – |
| Transfers | – | – | – | – | – | 19,544 | – | – | – | – | – | (19,544) | – | – | – |
| | (1,038) | (44,359) | 1,038 | 2,209 | – | 19,544 | 41,068 | – | 942 | 9,515 | – | (114,973) | (86,054) | – | (86,054) |
| At 31 December 2011 | 38,226 | 1,113,005 | 3,001 | 2,209 | 9,946 | 140,883 | 50,062 | 673 | (7,552) | 19,054 | (58,115) | 187,960 | 1,499,352 | (458) | 1,498,894 |
| Profit (loss) for the year | – | – | – | – | – | – | – | – | – | – | – | 39,176 | 39,176 | (215) | 38,961 |
| Other comprehensive expenses for the year | – | – | – | – | – | – | – | – | – | – | (64) | – | (64) | – | (64) |
| Total comprehensive (expenses) income for the year | – | – | – | – | – | – | – | – | – | – | (64) | 39,176 | 39,112 | (215) | 38,897 |
| Issue of shares by subsidiaries and contribution from non-controlling shareholders | – | – | – | – | 99 | – | – | – | – | – | – | – | 99 | 671 | 770 |
| Repurchase and cancellation of shares | (716) | (45,057) | 716 | – | – | – | – | – | – | – | – | (716) | (45,773) | – | (45,773) |
| Share issued upon exercise of share options | 22 | 1,896 | – | – | – | – | – | – | – | (579) | – | – | 1,339 | – | 1,339 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | – | 12,709 | – | – | 12,709 | – | 12,709 |
| Recognition of equity-settled share-based payments granted by a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | – | 22,024 | 22,024 |
| Final dividend for 2011 paid | – | – | – | – | – | – | (50,062) | – | – | – | – | – | (50,062) | – | (50,062) |
| Interim dividend for 2012 declared and paid | – | – | – | – | – | – | – | – | – | – | – | (62,927) | (62,927) | – | (62,927) |
| Final dividend for 2012 proposed | – | – | – | – | – | – | 81,947 | – | – | – | – | (81,947) | – | – | – |
| Partial disposal of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | – | 132 | 132 |
| Awarded shares vested to employees | – | – | – | – | – | – | – | – | 327 | (198) | – | (129) | – | – | – |
| Transfers | – | – | – | – | – | 32,012 | – | – | – | – | – | (32,012) | – | – | – |
| | (694) | (43,161) | 716 | – | 99 | 32,012 | 31,885 | – | 327 | 11,932 | – | (177,731) | (144,615) | 22,827 | (121,788) |
| At 31 December 2012 | 37,532 | 1,069,844 | 3,717 | 2,209 | 10,045 | 172,895 | 81,947 | 673 | (7,225) | 30,986 | (58,179) | 49,405 | 1,393,849 | 22,154 | 1,416,003 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Notes:

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

b. Other reserve represented the deemed contribution arising from the promissory notes issued to a substantial shareholder of the Company which is interest-free. The details of the promissory notes are set out in Note 34.

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

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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | 113,897 | 179,775 |
| Adjustments for: | | |
| Share of losses of associates | 1,456 | 581 |
| Share of loss of a jointly controlled entity | 1,391 | — |
| Gain on fair value changes of investment property | (407) | (1,990) |
| Gain on deemed disposal of an associate | (80) | — |
| Net loss on derivative financial instruments | 282,424 | 17,792 |
| Finance costs | 28,417 | 3,806 |
| Interest income | (39,749) | (11,755) |
| Loss on partial disposal of a subsidiary | 132 | — |
| Net loss (gain) on held for trading investments | 61 | (1,348) |
| Release of prepaid lease payments | 1,460 | 1,455 |
| Amortisation of intangible assets | 4,478 | 11,363 |
| Written off of intangible assets | 2,156 | — |
| Depreciation of property, plant and equipment | 26,292 | 35,923 |
| Share-based payments expense | 34,733 | 10,085 |
| Loss on disposal of property, plant and equipment | 76 | 42 |
| Allowances on trade receivables | 2,639 | 179 |
| Operating cash flows before movements in working capital | 459,376 | 245,908 |
| Increase in trade receivables | (22,511) | (17,312) |
| Increase in other receivables, prepayments and deposits | (11,009) | (1,227) |
| (Increase) decrease in held for trading investments | (5,000) | 2,427 |
| Increase in amounts due from related companies | (2,437) | (1,029) |
| Increase in trade payables and other payables | 18,639 | 67,617 |
| (Decrease) increase in deferred income | (750) | 2,409 |
| (Decrease) increase in amounts due to related companies | (844) | 965 |
| Cash generated from operations | 435,464 | 299,758 |
| Interest paid | (69) | — |
| Income tax paid | (46,821) | (23,282) |
| **NET CASH FROM OPERATING ACTIVITIES** | 388,574 | 276,476 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

| | NOTE | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest received | | 35,374 | 11,625 |
| Acquisition of a subsidiary | 37 | 2,556 | – |
| Acquisitions of associates | | (500) | (13,250) |
| Investment in a jointly controlled entity | | (19,406) | – |
| Acquisitions of available-for-sale investments | | (1,000) | – |
| Proceeds from disposal of property, plant and equipment | | 80 | 420 |
| Placement of bank deposits | | (404,081) | (10,000) |
| Placement of pledged bank deposit | | (194,405) | – |
| Withdrawal of bank deposits | | 50,000 | 310,828 |
| Advance of loan receivables | | (9,682) | (693) |
| Repayment of loan receivables | | 3,970 | – |
| Advanced to a jointly controlled entity | | (3,060) | – |
| Purchase of prepaid lease payments | | (36,908) | – |
| Purchase of property, plant and equipment | | (137,358) | (100,904) |
| Purchase of intangible assets | | (4,733) | (3,088) |
| **NET CASH (USED IN) FROM INVESTING ACTIVITIES** | | (719,153) | 194,938 |
| **FINANCING ACTIVITIES** | | | |
| Advanced from an associate | | 5,600 | – |
| Contribution from non-controlling shareholders | | 671 | – |
| Proceeds from issue of promissory notes | | – | 31,774 |
| Proceeds from issue of redeemable convertible preferred shares | | 13,395 | 151,857 |
| Proceeds from exercise of share options | | 1,339 | – |
| Dividends paid | | (112,989) | (52,951) |
| Repayment of a shareholder | | – | (5,328) |
| New bank loan raised | | 183,595 | – |
| Payment for repurchase of shares | | (45,773) | (45,397) |
| **NET CASH FROM FINANCING ACTIVITIES** | | 45,838 | 79,955 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | | (284,741) | 551,369 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | 1,428,928 | 877,823 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | (1,362) | (264) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH** | | 1,142,825 | 1,428,928 |

## 1. GENERAL

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

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

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

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

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

| | |
|---|---|
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets |
| Amendments to HKFRS 7 | Financial Instruments: Disclosures - Transfers of Financial Assets |

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

The application of the amendments to HKAS 12 has resulted in the Group not recognising any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The application of the amendments to HKAS 12 have had no material effect on the Group's result and financial position for the current and prior year.

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

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009 – 2011 Cycle[1] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[2] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[1] |
| HKFRS 11 | Joint Arrangements[1] |
| HKFRS 12 | Disclosure of Interests in Other Entities[1] |
| HKFRS 13 | Fair Value Measurement[1] |
| HKAS 19 (as revised in 2011) | Employee Benefits[1] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[1] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| HK (IFRIC) - INT 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

1 Effective for annual periods beginning on or after 1 January 2013.

2 Effective for annual periods beginning on or after 1 January 2014.

3 Effective for annual periods beginning on or after 1 January 2015.

4 Effective for annual periods beginning on or after 1 July 2012.

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

HKFRS 9 Financial Instruments

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. Based on the Group's financial assets and financial liabilities as at 31 December 2012, the directors anticipate that the adoption of HKFRS 9 in the future will affect the classification and measurement of the Group's available-for-sale investments and have no significant impact on the amounts of the Group's other financial assets and financial liabilities. Regarding the Group's available-for-sale investments, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

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

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK (SIC) - INT 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures (Cont'd)

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – INT 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time. The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013. The application of these five standards may not impact on amounts reported in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below:

### Basis of consolidation

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

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

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

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

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

*Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

*Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the net assets attributable to the change in interests by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

Investments in associates

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Investment in jointly controlled entity

Joint venture arrangement that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of jointly controlled entity used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in jointly controlled entity is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recongise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entity. When the Group's share of loss of jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further loss. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

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

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

### Revenue recognition

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

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

Revenue recognition (Cont'd)

*Online games revenue*

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

Mobile advertising and promotion revenue is derived from provision of advertising space on the Group's mobile platforms and websites or on embedded advertising space in applications to its customers. Advertising revenue is charged based on either display period or outcome. For advertising contracts based on display period, revenue is recognised ratably over the period the advertising is provided. Where customers purchase multiple advertising spaces with different display periods in the same contract, the Group allocates the total consideration to the various advertising elements based on their relative fair value and recognises revenue for the different elements over their respective display periods. For advertising contracts based on outcome of the advertising service, revenue is recognised after delivery of advertising service based on certain mechanism stipulated in contracts, i.e., number of incremental end users multiplied by unit price of each incremental end user or certain portion of the total incremental revenue recognised by customers.

*Mobile games and value-added services revenue*

The Group provides games services and other mobile value-added services on its mobile platforms and websites. Games are either developed by third parties or self-developed. End users can purchase the virtual currency provided by the Group, called "91 Bean" and then convert it into various virtual currencies in games or applications for purchase of virtual items.

The purchase of 91 Bean and the conversion from 91 Bean to various virtual currencies in games or applications are irreversible and not refundable.

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

Revenue recognition (Cont'd)

*Mobile games and value-added services revenue (Cont'd)*

- For games developed by third party game developers, the Group provides promotion service via its mobile platforms and websites. The Group is paid by game players in sale of 91 Bean. 91 Bean is then converted into specific virtual currencies in games. Upon the conversion, the Group then remits certain agreed percentages of the proceeds to the game developers and records revenue net of the remittances. The remaining balance of 91 Bean is recorded in other payables. The Group also helps third party game developers promote their games on other mobile platforms. The net proceeds earned from such promotion service are recognised as revenue.

- For self-developed games, the Group sells virtual items in games. Revenue is recognised over the estimated period of time during the virtual item in games are used by the customers in the mobile games. The in-game currencies purchased by the customers are initially recognised as deferred income.

- Mobile value-added service revenue is derived principally from providing users with products such as wallpapers, ringtones, e-books and applications etc. which are mainly developed and owned by content providers. Mobile value-added service is paid either though 91 Bean or other virtual currencies converted by 91 Bean in specific applications. After the service provision, the Group will remit certain agreed percentages of the proceeds to the content providers and record revenue net of the remittances. The Group also provides proprietary products to end users and recognises revenue based on the selling price to the end users.

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

Service income is recognised when services are provided.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

### Government grants

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

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

### Property, plant and equipment

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

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

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

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

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

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

### Leasehold land and building

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

### Impairment

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

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

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

### Intangible assets

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

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

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

### Leasing

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

*The Group as lessor*

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

*The Group as lessee*

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

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

### Foreign currencies

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

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

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

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

Financial instruments

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

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

### *Financial assets*

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

### *Effective interest method*

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

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

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

Financial instruments (Cont'd)

**Financial assets at FVTPL**

Financial assets at FVTPL are financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

**Loans and receivables**

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

**Available-for-sale financial assets**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Financial instruments (Cont'd)

**Impairment of financial assets**

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

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

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

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

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

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

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

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

Financial instruments (Cont'd)

**Impairment of financial assets (Cont'd)**

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

### *Financial liabilities and equity instruments*

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

*Equity instruments*

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

### *Effective interest method*

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

Interest expense is recognised on an effective interest basis.

Financial liabilities including trade and other payables, amounts due to related companies, amount due to an associate and secured bank loan are subsequently measured at amortised cost, using the effective interest method for debt instruments.

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

Financial instruments (Cont'd)

***Equity instruments***

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

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

Redeemable convertible preferred shares

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

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

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

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

Promissory notes

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

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

*Derecognition*

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

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

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

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

Share-based payment transactions

**Equity-settled share-based payment transactions**

*Share option scheme*

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

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

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

*Share award scheme*

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

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

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

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

### Research and development expenditure

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Retirement benefit costs

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

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

### Taxation

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

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

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

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

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

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

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

### Taxation (Cont'd)

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

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

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### Critical judgements in applying the entity's accounting policy

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

*Accounting for companies governed under contractual arrangements as subsidiaries*

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

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB901,899,000 (2011:RMB599,604,000) for the year ended 31 December 2012. At 31 December 2012, total assets and total liabilities of these entities amounted to approximately RMB261,967,000 (2011: RMB144,785,000) and RMB331,828,000 (2011:RMB308,833,000).

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

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

*Deferred taxation on investment properties*

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

*Mobile game revenue recognition*

Revenue from mobile games which are developed by third party game developers are recognised on a net basis. In assessing the recognition basis, the management concluded that game developers are the principals based on the fact that the games are primarily hosted on the game developers' servers and game developers are responsible for maintenance of the games and determination of the prices of the virtual items in games.

Mobile value-added service revenue arising from products from content providers is recognised on a net basis. In assessing the recognition basis, the management concluded that the content providers are the principals based on the fact that the content providers retain copyright of the contents and take responsibilities including copyright dispute, legal risk as well as price determination, while the Group mainly offers the service in provision of promotion, collecting money on behalf of the content providers as well as customer service to end users. Therefore, the management report mobile value-added service revenue arising from products from content providers on a net basis.

Key source of estimation uncertainty

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Key source of estimation uncertainty (Cont'd)

*Online game revenue recognition*

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

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

*Allowances on trade receivables*

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

## 5. REVENUE, OTHER INCOME AND GAINS

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Online game revenue | 825,744 | 701,565 |
| Mobile Internet business revenue | 282,605 | 59,409 |
| | 1,108,349 | 760,974 |
| **Other income and gains** | | |
| Gain on fair value changes of investment property | 407 | 1,990 |
| Government grants (Note) | 10,631 | 18,659 |
| Interest income | 34,900 | 11,755 |
| Net gain on held for trading investments | – | 1,348 |
| Rental income, net of nil outgoings | 448 | 303 |
| Others | 3,639 | 4,101 |
| | 50,025 | 38,156 |

Note:

Government grants were received from the government of the PRC mainly for subsidising the costs incurred by the Group in conducting and launching research and development projects in Fujian Province, the PRC, relating to software or technology development. There are no unfulfilled conditions or contingencies relating to the grants.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 6. FINANCE COSTS

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest on: | | |
| Bank loan wholly repayable within five years | **4,276** | – |
| Redeemable convertible preferred shares (Note 33) | **23,518** | 2,497 |
| Promissory notes | **623** | 1,309 |
| | **28,417** | 3,806 |

## 7. SEGMENT INFORMATION

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

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

2012

| | **Online game** | **Mobile Internet business** | **Total** |
|---|---|---|---|
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Segment revenue | **825,744** | **282,605** | **1,108,349** |
| Segment profit (loss) | **396,494** | **(221,650)** | **174,844** |
| Unallocated income and gains | | | **48,605** |
| Unallocated expenses | | | **(106,705)** |
| Share of losses of associates | | | **(1,456)** |
| Share of loss of a jointly controlled entity | | | **(1,391)** |
| Profit before taxation | | | **113,897** |

## 7. SEGMENT INFORMATION (Cont'd)

2011

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

The segment loss of mobile Internet business during the year ended 31 December 2012 included net loss on derivative financial instruments relating to redeemable convertible preferred shares of RMB271,745,000 (2011: RMB17,792,000) and finance costs relating to redeemable convertible preferred shares and promissory notes of RMB23,518,000 and RMB623,000, respectively (2011: RMB2,497,000 and RMB1,309,000).

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, share of loss of a jointly controlled entity, 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. There is no inter-segment revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 7. SEGMENT INFORMATION (Cont'd)

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

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Online game | 1,750,584 | 1,513,587 |
| Mobile Internet business | 420,259 | 216,745 |
| Total segment assets | 2,170,843 | 1,730,332 |
| Unallocated | 274,510 | 166,488 |
| | 2,445,353 | 1,896,820 |

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

### Geographical information

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

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

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| PRC | 994,371 | 630,948 |
| United States of America ("USA") | 110,274 | 125,365 |
| Others | 3,704 | 4,661 |
| | 1,108,349 | 760,974 |

## 7. SEGMENT INFORMATION (Cont'd)

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

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| PRC | **509,361** | 291,536 |
| Hong Kong | **36,810** | 38,835 |
| USA | **107** | 94 |
| | **546,278** | 330,465 |

No single customers of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2012 and 2011.

## 8. TAXATION

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| The charge comprises: | | |
| Hong Kong Profits Tax | **2,814** | 6,531 |
| The PRC Enterprise Income Tax ("EIT") | | |
| – Current year | **51,152** | 27,681 |
| – Withholding tax | **16,110** | 10,100 |
| | **67,262** | 37,781 |
| Taxation in other jurisdiction | **251** | 220 |
| Deferred tax | **4,609** | – |
| | **74,936** | 44,532 |

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

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

## 8. TAXATION (Cont'd)

Fujian TQ Digital Inc. ("TQ Digital") is a wholly foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 10 September 2009. Pursuant to the Circular on Some Preferential Policies for the EIT (關於實施高新技術企業所得稅優惠有關問題的通知) issued by the State Administration of Taxation ("SAT")(國家稅務總局) on 22 April 2009, TQ Digital is entitled to a reduced tax rate of 15%. The qualification of hi-tech enterprise is subject to review once every two years and TQ Digital continued to be recognised as a hi-tech enterprise for the years ended 31 December 2012 and 2011.

In accordance with the relevant income tax laws and regulations of the PRC for software enterprises, Fuzhou BoYuan Wireless Websoft Technology Ltd. is exempted from EIT for two years from 1 January 2012 to 31 December 2013 and is entitled to a 50% reduction in the PRC EIT for the subsequent three years from 1 January 2014 to 31 December 2016.

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

NetDragon (Shanghai) was approved to be a hi-tech enterprise in 2009 and has obtained the approval to enjoy 50% reduction in EIT rate for the period from 1 January 2009 to 31 December 2011. Thus, NetDragon (Shanghai) is subject to tax rate of 25% for the year ended 31 December 2012 (2011: 12.5%).

Pursuant to the relevant laws and regulations in the PRC, Fujian TQ Online Interactive Inc. ("TQ Online") is exempted from PRC EIT for two years starting from its first profit making year, followed by a 50% reduction for the next three years. Thus, TQ Online was entitled to pay EIT at the reduced tax rate of 12.5% for the year ended 31 December 2012 (2011: 12.5%).

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable.

For the year ended 31 December 2012, the USA income tax rates applicable to NetDragon Websoft Inc. are 34% (2011: 34%) for federal tax and 8.84% (2011: 8.84%) for state income tax.

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

## 8. TAXATION (Cont'd)

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

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Profit before taxation | **113,897** | 179,775 |
| Tax at the applicable tax rate of 25% (2011: 25%) (Note a) | **28,474** | 44,944 |
| Tax effect of share of losses of associates | **364** | 145 |
| Tax effect of share of loss of a jointly controlled entity | **348** | — |
| Tax effect of income not taxable for tax purpose | **(3,182)** | (3,907) |
| Tax effect of expenses not deductible for tax purpose | **96,553** | 22,243 |
| Tax effect of temporary difference not recognised | **(2,668)** | 6,175 |
| Utilisation of tax losses previously not recognised | **(24,639)** | (3,279) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(1,145)** | (3,353) |
| Additional tax benefit on development expenses (Note b) | **(4,008)** | (6,632) |
| Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries | **(36,416)** | (22,029) |
| Withholding tax on undistributed earnings of the PRC subsidiaries | **22,251** | 10,100 |
| Others | **(996)** | 125 |
| Tax charge for the year | **74,936** | 44,532 |

Notes:

a. The applicable tax rate of 25% represents the applicable income tax rate of the subsidiaries in Fujian Province in the PRC which constitute the substantial part of the Group's operations for both years ended 31 December 2012 and 2011.

b. Pursuant to the relevant tax rules and regulations, the Group can obtain additional tax benefit, which is equivalent to 30% and 50% of the salary and depreciation under development costs incurred for the development of new games and advanced technology development.

Details of deferred taxation are set out in note 23.

## 9. PROFIT FOR THE YEAR

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Staff costs: | | |
| Directors' emoluments | **9,003** | 5,437 |
| Other staff costs | | |
| Salaries and other benefits | **286,427** | 234,451 |
| Contributions to retirement benefits schemes | **29,657** | 19,575 |
| Share-based payments expense | **28,486** | 7,338 |
| | **353,573** | 266,801 |
| Auditor's remuneration | | |
| – audit services | **1,123** | 1,288 |
| – non-audit services | **5,758** | 1,550 |
| | **6,881** | 2,838 |
| Allowances on trade receivables | **2,639** | 179 |
| Amortisation of intangible assets (included in cost of revenue) | **3,171** | 7,427 |
| Amortisation of intangible assets (included in other expenses) | **1,307** | 3,936 |
| Advertising and promotion expenses (included in selling and marketing expenses) | **76,031** | 88,678 |
| Release of prepaid lease payments (included in administrative expenses) | **1,460** | 1,455 |
| Depreciation of property, plant and equipment | **26,292** | 35,923 |
| Gain on deemed disposal of an associate | **(80)** | – |
| Loss on partial disposal of a subsidiary | **132** | – |
| Operating lease rentals in respect of | | |
| – rented premises | **18,768** | 15,346 |
| – computer equipment | **60,832** | 38,782 |
| Net foreign exchange (gain) loss | **(9,303)** | 15,202 |
| Net loss (gain) on held for trading investments | **61** | (1,348) |
| Written off of intangible assets (included in other expenses) | **2,156** | – |
| Loss on disposal of property, plant and equipment | **76** | 42 |

## 10. DIRECTORS' AND EMPOLYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the eight (2011: eight) directors of the Company were as follows:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries and other benefits RMB'000 | Contributions to retirement benefits schemes RMB'000 | Share-based payments expense RMB'000 | Total RMB'000 |
| *Executive directors* | | | | | |
| Mr. Liu Dejian | – | 542 | – | 2,021 | 2,563 |
| Mr. Liu Luyuan | – | 534 | 15 | 478 | 1,027 |
| Mr. Zheng Hui | – | 172 | 15 | 142 | 329 |
| Mr. Chen Hongzhan | – | 467 | 15 | 2,022 | 2,504 |
| *Non-executive director* | | | | | |
| Mr. Lin Dongliang | – | – | – | – | – |
| *Independent non-executive directors* | | | | | |
| Mr. Chao Guowei, Charles | 332 | – | – | 528 | 860 |
| Mr. Lee Kwan Hung | 332 | – | – | 528 | 860 |
| Mr. Liu Sai Keung, Thomas | 332 | – | – | 528 | 860 |
| | 996 | 1,715 | 45 | 6,247 | 9,003 |

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

Directors' emoluments (Cont'd)

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

Note:

Mr. Liu Luyuan is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Employees' emoluments

The emoluments of the five highest paid individuals included one (2011: two) executive directors of the Company, whose emoluments are included in the disclosures above. The emoluments of the remaining four individuals (2011: three) were as follows:

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries and other benefits | **9,851** | 5,314 |
| Contribution to retirement benefits schemes | **49** | 32 |
| Share-based payments expenses | **5,346** | – |
| | **15,246** | 5,346 |

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

Employees' emoluments (Cont'd)

Their emoluments were within the following bands:

| | **2012 Number of employees** | 2011 Number of employees |
|---|---|---|
| HKD1,000,001 to HKD1,500,000 | **–** | 1 |
| HKD2,000,001 to HKD2,500,000 | **–** | 2 |
| HKD3,000,001 to HKD3,500,000 | **3** | – |
| HKD5,000,001 to HKD5,500,000 | **1** | – |
| | **4** | 3 |

During the year ended 31 December 2012, no emoluments have been paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any remuneration during the year ended 31 December 2012 (2011: Nil).

## 11. DIVIDENDS

| | **2012 RMB'000** | 2011 RMB'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2012 Interim - HKD0.15 (2011: 2011 Interim dividend of HKD0.10) per share | **62,927** | 43,957 |
| 2011 Final - HKD0.12 (2011: 2010 Final dividend of HKD0.02) per share | **50,062** | 8,994 |
| | **112,989** | 52,951 |

The final dividend of HKD0.20 (2011: HKD0.12) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounting to approximately RMB81,947,000 (2011: RMB50,062,000).

## 12. EARNINGS PER SHARE

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

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Earnings for the purposes of basic and diluted earnings per share – profit for the year attributable to the owners of the Company | **39,176** | 135,161 |

| | **Number of shares** | |
|---|---|---|
| | **2012** | 2011 |
| | **'000** | '000 |
| Weighted average number of shares in issue during the year for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme) | **508,196** | 522,948 |
| Effect of dilutive potential shares from the Company's share option scheme | **7,044** | – |
| Weighted average number of shares for the purpose of diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme) | **515,240** | 522,948 |

The computation of diluted earnings per share for the year ended 31 December 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 as the subsidiary incurred loss during the year.

The computation of diluted earnings per share for the year ended 31 December 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 year ended 31 December 2011.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Computer and office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2011 | 25,267 | 66,953 | 168,712 | 8,289 | 8,793 | 278,014 |
| Exchange adjustments | (949) | (23) | (19) | – | – | (991) |
| Additions | – | 6,948 | 7,998 | 1,465 | 84,493 | 100,904 |
| Reclassification | – | 2,272 | – | – | (2,272) | – |
| Disposals | – | (3,352) | (5,393) | (745) | – | (9,490) |
| At 31 December 2011 | 24,318 | 72,798 | 171,298 | 9,009 | 91,014 | 368,437 |
| Exchange adjustments | 4 | – | – | – | – | 4 |
| Additions | – | 9,236 | 35,987 | 4,235 | 87,900 | 137,358 |
| Acquired through acquisition of a subsidiary | – | 26,900 | 14,971 | 509 | – | 42,380 |
| Reclassification | – | 4,682 | – | – | (4,682) | – |
| Disposals | – | – | (2,116) | – | – | (2,116) |
| At 31 December 2012 | 24,322 | 113,616 | 220,140 | 13,753 | 174,232 | 546,063 |
| **DEPRECIATION** | | | | | | |
| At 1 January 2011 | 1,320 | 17,767 | 125,733 | 4,660 | – | 149,480 |
| Exchange adjustments | (36) | (6) | (15) | – | – | (57) |
| Provided for the year | 749 | 8,481 | 25,204 | 1,489 | – | 35,923 |
| Eliminated on disposals | – | (3,352) | (5,063) | (613) | – | (9,028) |
| At 31 December 2011 | 2,033 | 22,890 | 145,859 | 5,536 | – | 176,318 |
| Exchange adjustments | (2) | – | – | – | – | (2) |
| Provided for the year | 739 | 8,119 | 15,849 | 1,585 | – | 26,292 |
| Eliminated on disposals | – | – | (1,960) | – | – | (1,960) |
| At 31 December 2012 | 2,770 | 31,009 | 159,748 | 7,121 | – | 200,648 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2012 | 21,552 | 82,607 | 60,392 | 6,632 | 174,232 | 345,415 |
| At 31 December 2011 | 22,285 | 49,908 | 25,439 | 3,473 | 91,014 | 192,119 |

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis, after taking into account of their residual values, at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of the term of the lease of 20 years, or 4.75% |
| Leasehold improvements | Over the shorter of the terms of the leases, or 20% - 33.33% |
| Computer and office equipment | 19% - 31.67% |
| Motor vehicles | 19% - 23.75% |

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

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

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| In Hong Kong | | |
| Long lease | **17,654** | 18,142 |
| In the PRC other than in Hong Kong | | |
| Medium-term lease | **3,898** | 4,143 |
| | **21,552** | 22,285 |

## 14. PREPAID LEASE PAYMENTS

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current assets | **2,902** | 1,784 |
| Non-current assets | **139,678** | 86,298 |
| | **142,580** | 88,082 |

The Group's prepaid lease payments are located in the PRC which are held under medium-term lease. Inclusion in the prepaid lease payments are land use rights with carrying amount of RMB55,958,000 (2011: Nil) which the Group is in the process of obtaining the land use right certificates.

## 15. INVESTMENT PROPERTY

| | RMB'000 |
|---|---|
| **Fair value** | |
| At 1 January 2011 | 14,551 |
| Exchange adjustments | (732) |
| Net increase in fair value recognised | 1,990 |
| At 31 December 2011 and 1 January 2012 | 15,809 |
| Exchange adjustments | 1 |
| Net increase in fair value recognised | 407 |
| At 31 December 2012 | 16,217 |

The fair values of the Group's investment property, including both land and building elements, at 31 December 2012 have been arrived at on the basis of a valuation carried out on that date by Asset Appraisal Limited, an independent firm of professional valuer not connected with the Group. Asset Appraisal Limited is a member of The Hong Kong Institute of Surveyors. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

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

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

## 16. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

In 2011, deposit was paid for bidding the land which is located in the PRC. The land has been successfully bidded on 27 February 2012 and transferred to the prepaid lease payments as set out in note 14.

## 17. INTANGIBLE ASSETS

| | Film rights | Trademark | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **COST** | | | |
| At 1 January 2011 | 6,700 | 21,306 | 28,006 |
| Exchange adjustments | – | (1,077) | (1,077) |
| Additions | – | 3,088 | 3,088 |
| At 31 December 2011 | 6,700 | 23,317 | 30,017 |
| Exchange adjustments | – | (12) | (12) |
| Additions | – | 4,733 | 4,733 |
| Written off | – | (4,209) | (4,209) |
| At 31 December 2012 | 6,700 | 23,829 | 30,529 |
| **AMORTISATION** | | | |
| At 1 January 2011 | 2,898 | 11,972 | 14,870 |
| Exchange adjustments | – | (736) | (736) |
| Provide for the year | 3,802 | 7,561 | 11,363 |
| At 31 December 2011 | 6,700 | 18,797 | 25,497 |
| Exchange adjustments | – | (19) | (19) |
| Provide for the year | – | 4,478 | 4,478 |
| Written off | – | (2,053) | (2,053) |
| At 31 December 2012 | 6,700 | 21,203 | 27,903 |
| **CARRYING VALUES** | | | |
| At 31 December 2012 | – | 2,626 | 2,626 |
| At 31 December 2011 | – | 4,520 | 4,520 |

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

| | |
|---|---|
| Film rights | 50% |
| Trademark | 17.39% - 67.67% |

## 18. INTERESTS IN ASSOCIATES

| | **2012 RMB'000** | 2011 RMB'000 |
|---|---|---|
| Unlisted investments outside Hong Kong: | | |
| Cost of investments | **13,830** | 13,250 |
| Share of post-acquisition losses | **(2,037)** | (581) |
| | **11,793** | 12,669 |

As at 31 December 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 |
|---|---|---|---|---|---|
| | **2012** | 2011 | | | |
| 廈門易用軟件技術有限公司 （廈門易用） (E-Yong Websoft Inc.*) (Note a) | **42.9%** | 50% | PRC | RMB3,500,000 | Provision of business management software application development |
| 上海博股信息科技有限公司 (Shanghai Bogu Information Technology Co., Ltd.*) (Note b) | **35%** | 35% | PRC | RMB5,000,000 | Provision of software for stock information enquires |
| 濟南四葉草信息技術有限公司 （濟南四葉草） (Jinan CloverTek Co., Ltd*) (Note a) | **12%** | 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%** | 40% | PRC | RMB15,000,000 | Provision for sales of health food through mobile Internet |
| 北京米酷倍顯軟件科技有限公司 (Beijing Miku Beixian Software Technology Co., Ltd.*) (Note b) | **50%** | – | PRC | RMB1,000,000 | Provision of software application development and maintenance |

* *For identification purpose only*

## 18. INTERESTS IN ASSOCIATES (Cont'd)

Notes:

a. During the year 2011, the Group has acquired two associates, 廈門易用 and 濟南四葉草 from independent third parties with an aggregated fair value of assets and liabilities attributable to the interests acquired by the Group of approximately RMB1,741,000 at a total consideration of RMB5,500,000. The investment costs of 廈門易用 and 濟南四葉草 included goodwill of approximately RMB1,141,000 and RMB2,618,000, respectively. The Group holds 12% of the equity interests of 濟南四葉草 and have right to appoint one director out of three directors in the board of 濟南四葉草. Therefore, 濟南四葉草 is classified as an associate of the Group.

b. The entity is newly established during the year ended 31 December 2012. The Group holds 50% of equity interest of 北京米酷倍顯軟件科技有限公司 and has a right to appoint one director out of three directors in the board of 北京米酷倍顯軟件科技有限公司. Therefore, 北京米酷倍顯軟件科技有限公司 is classified as an associate of the Group.

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

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Assets | 21,445 | 24,467 |
| Liabilities | (480) | (461) |
| Net assets | 20,965 | 24,006 |
| Group's share of net assets of associates | 8,034 | 8,910 |
| Revenue | 1,167 | 384 |
| Losses for the year | 4,631 | 1,897 |
| Group's share of losses for the year | 1,456 | 581 |

## 19. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Unlisted investment outside Hong Kong: | | |
| Cost of investment | **19,406** | – |
| Share of post-acquisition loss | **(1,391)** | – |
| | **18,015** | – |

As at 31 December 2012, the Group had interest in the following jointly controlled entity:

| **Name of entity** | **Percentage of registered capital directly held by the Group** | **Country of establishment/ operation** | **Registered capital** | **Principal activities** |
|---|---|---|---|---|
| 江蘇博得網絡科技有限公司 Jiangsu BoDe Websoft Technology Ltd. ("Jiangsu BoDe") | 51% | PRC | USD6,000,000 | Websoft information technology and game research, development and related advisory services |

The Group considered the existence of substantive participating rights held by the minority owner which provide that shareholder with a veto right over the significant financial and operating policies of Jiangsu BoDe and determined that as a result of these rights, none of the participating parties has unilateral control over the economic activity despite the Group's 51% ownership interest.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 19. INTEREST IN A JOINTLY CONTROLLED ENTITY (Cont'd)

The summarised financial information in respect of the Group's interest in the jointly controlled entity is set out below:

| | **2012** **RMB'000** |
|---|---|
| Assets | **19,888** |
| Liabilities | **(1,873)** |
| Group's share of net assets of a jointly controlled entity | **18,015** |
| Revenue | **727** |
| Group's share of loss for the year | **1,391** |

## 20. AVAILABLE-FOR-SALE INVESTMENTS

| | **2012** **RMB'000** | 2011 RMB'000 |
|---|---|---|
| Unlisted equity securities in the PRC | | |
| – 福建楊振華851生物科技股份有限公司 (Fujian Yangzhenhua 851 Bio-Engineering Inc.) (Note a) | **4,000** | 4,000 |
| – 青島信通物聯網路有限公司 (Note b) | **1,000** | – |
| | **5,000** | 4,000 |

Notes:

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

b. The entity is a private entity established in PRC. During the year, the Group has invested RMB1,000,000 in this entity which represents 10% of equity interests in this entity.

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

## 21. LOAN RECEIVABLES

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Fixed-rate loan receivables | **13,112** | 7,405 |
| Analysed as: | | |
| Current | **3,143** | 1,091 |
| Non-current | **9,969** | 6,314 |
| | **13,112** | 7,405 |

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

| | 2012 | 2011 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate loan receivables (per annum) | **4.64%** | 4.89% |

Loan receivables represent loans to certain key management and senior staffs. Loan receivables are not past due or impaired at the end of reporting period. The Group does not hold any collateral over this balance. The loans are either repayable by instalments until 2013, 2014, 2015, 2016 or 2017 or repayable in whole in 2013, 2014, 2015, 2016 or 2017.

## 22. GOODWILL

The carrying amounts of goodwill as at 31 December 2012 arising from the acquisition of a subsidiary. Details are set out in note 37.

For the purpose of impairment testing, goodwill has been allocated to the individual cash generating unit ("CGU"), which comprises the subsidiary acquired during the year, 福州軟件職業技術學院 (Note 37). During the year ended 31 December 2012, management of the Group determines that there are no impairments of its CGU containing goodwill. The recoverable amount of the goodwill has been determined based on a value in use calculation. That calculation uses cashflow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 10.16%. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the goodwill to exceed the aggregate recoverable amount of the CGU.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 23. DEFERRED TAX ASSETS

The deferred tax assets and liabilities are presented in the consolidated statement of financial position as below:

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Deferred tax assets | **1,586** | 54 |
| Deferred tax liabilities | **(6,141)** | — |
| | **(4,555)** | 54 |

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

| | **Undistributable profits of subsidiaries** | **Development costs and accrued expenses** | **Total** |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2011, 31 December 2011 and 1 January 2012 | — | 54 | 54 |
| (Charged) credited to profit or loss | (6,141) | 1,532 | (4,609) |
| At 31 December 2012 | (6,141) | 1,586 | (4,555) |

At the end of the reporting period, the Group has temporary differences associated with undistributed earnings of PRC subsidiaries of RMB206,394,000 (2011: RMB78,858,000). Deferred tax liabilities has been recognised in respect of undistributed earnings of RMB68,238,000 (2011: Nil). No deferred tax liability has been recognised for the remaining undistributed earnings of RMB138,156,000 (2011: RMB78,858,000) because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The Group also has not recognised deferred tax assets arising from tax losses amounting to approximately RMB94,059,000 (2011: RMB192,615,000) due to the unpredictability of the future profit streams and tax losses to be agreed with the PRC tax authority. Included in unrecognised tax losses, approximately RMB93,297,000 (2011: RMB191,853,000) will expire in 2015. Other tax losses may be carried forward indefinitely.

## 24. TRADE RECEIVABLES

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

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 - 30 days | **38,519** | 22,261 |
| 31 - 60 days | **12,753** | 5,364 |
| 61 - 90 days | **4,252** | 6,737 |
| Over 90 days | **5,903** | 7,193 |
| | **61,427** | 41,555 |

Before accepting any new agent/customer, the Group uses an internal credit assessment policy to assess the potential agent/customer's credit quality and define credit limits by agent/customer. Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB9,088,000 (2011: RMB15,839,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as there has not been significant changes in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 31 - 60 days | **2,506** | 3,577 |
| 61 - 90 days | **679** | 5,069 |
| Over 90 days | **5,903** | 7,193 |
| Total | **9,088** | 15,839 |

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## 24. TRADE RECEIVABLES (Cont'd)

Movement in the allowance for doubtful debts

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| At beginning of year | **490** | 311 |
| Allowances recognised on receivables | **2,639** | 179 |
| Exchange differences | **(9)** | – |
| At end of year | **3,120** | 490 |

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB3,120,000 (2011: RMB490,000) of which the debtors have been in dispute with the Group.

## 25. HELD FOR TRADING INVESTMENTS

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Equity securities listed in the PRC | **4,939** | – |

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

## 26. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

| Name of related company | Terms | Balance at 31 December 2012 RMB'000 | Balance at 31 December 2011 RMB'000 | Maximum amount outstanding during the year 2012 RMB'000 | Maximum amount outstanding during the year 2011 RMB'000 |
|---|---|---|---|---|---|
| 福州天亮網絡技術有限公司 Fuzhou Tianliang Network Technology Co., Limited ("Fuzhou Tianliang") (Note 1) | Unsecured, non-interest bearing and repayable on demand | **1,933** | 1,200 | **3,142** | 1,200 |
| 福州楊振華851生物工程技術研究開發有限公司 Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") (Note 2) | Unsecured, non-interest bearing and repayable on demand | **1,704** | – | **2,130** | 318 |
| | | **3,637** | 1,200 | | |

Notes:

(1) Fuzhou Tianliang is an entity wholly owned by Ms. Lin Hang, which acts under the instruction of the Ultimate Controlling Shareholders.

(2) Fuzhou 851 is an entity which is owned by DJM Holding Ltd., the immediate holding company of the Company, and Mr. Liu Dejian, executive director and one of the Ultimate Controlling Shareholders of the Company, together have 86.16% equity interest in this entity as of 31 December 2012.

## 27. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

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

## 28. PLEDGED BANK DEPOSIT/BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and bank deposits carry interest at prevailing banking deposit rates which ranges from 0.001% to 3.5% (2011: 0.001% to 3.5%) per annum.

Pledged bank deposit represents deposits pledged to bank to secure bank loan granted to the Group as mentioned in note 31. Deposit is denominated in Euros ("EURO") which carries interest at 4.51% per annum (2011: Nil).

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

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| HKD | **251,065** | 49,983 |
| USD | **287,020** | 342,359 |
| EURO | **194,405** | – |

## 29. TRADE AND OTHER PAYABLES

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade payables | **13,679** | 5,001 |
| Accrual staff costs | **69,213** | 45,324 |
| Cooperation fee payable | **48,791** | – |
| Receipt in advance | **20,717** | – |
| Other payables and accruals | **69,737** | 76,029 |
| | **222,137** | 126,354 |

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

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 - 90 days | **11,484** | 4,641 |
| 91 - 180 days | **1,330** | 323 |
| 181 - 365 days | **44** | 26 |
| Over 365 days | **821** | 11 |
| | **13,679** | 5,001 |

## 30. AMOUNTS DUE TO RELATED COMPANIES/AN ASSOCIATE

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

## 31. SECURED BANK LOAN

In the current year, the Group obtained new bank loan amounting to RMB183,595,000. 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 RMB194,405,000 which is denominated in EURO.

## 32. OTHER FINANCIAL LIABILITY

Derivative not under hedge accounting

During the year, 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 31.

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 31 December 2012, fair value loss of approximately RMB10,679,000 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.

## 33. REDEEMABLE CONVERTIBLE PREFERRED SHARES

91 Limited, a subsidiary of the Company issued 15,384,000 Series A redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD3,999,840 (equivalent to approximately RMB25,839,000) to IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investor L.P. and IDG-Accel China Growth Fund L.P. (collectively referred to as "IDG Companies"), group entities of a substantial shareholder of the Company, on 13 August 2011. The subsidiary also issued 16,025,000 Series B redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD20,000,000 (equivalent to approximately RMB126,018,000) to Vertex Asia Growth Ltd., IP Cathay II, L.P. and DT Capital China Growth Fund, L.P. on 15 December 2011 and 30 December 2011. On 12 October 2012, the subsidiary also issued 1,602,500 Series B redeemable convertible preferred shares of par value of USD0.0001 each at an aggregate issue price of USD2,000,000 (equivalent to approximately RMB13,395,000) to Sino Coast Development Limited. Both Series A and Series B redeemable convertible preferred shares are denominated in United States dollars.

## 33. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

### Conversion

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

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

### Dividends

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

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

## 33. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

Redemption

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

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

Liquidation

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

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

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

## 33. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

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

| | Liability component | Conversion option and other derivatives |
|---|---|---|
| | RMB'000 | RMB'000 |
| At initial recognition | 129,435 | 22,422 |
| Exchange realignment | (257) | (282) |
| Interest charge | 2,497 | — |
| Loss arising on changes of fair value | — | 17,792 |
| As at 31 December 2011 and 1 January 2012 | 131,675 | 39,932 |
| Exchange realignment | (563) | (1,254) |
| Issue of redeemable convertible preferred shares | 11,223 | 2,172 |
| Converted from promissory notes | 29,262 | 2,234 |
| Interest charge | 23,518 | — |
| Loss arising on changes of fair value | — | 271,745 |
| As at 31 December 2012 | 195,115 | 314,829 |

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 ("WACC") of 18.45%, 17.78%, 16.95% and 15.55% were used as at 31 December 2011, 17 February 2012, 12 October 2012 and 31 December 2012, respectively.

## 33. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

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 31 December 2011, 17 February 2012, 12 October 2012 and 31 December 2012 were as follows:

Series A redeemable convertible preferred shares

| | **31 December 2012** | 31 December 2011 |
|---|---|---|
| Risk-free interest rate (i) | **0.37%** | 0.81% |
| Expected volatility (ii) | **38.82%** | 71.83% |

Series B redeemable convertible preferred shares

| | **31 December 2012** | 12 October 2012 | 17 February 2012 | 31 December 2011 |
|---|---|---|---|---|
| Risk-free interest rate (i) | **0.37%** | 0.37% | 0.62% | 0.62% |
| Expected volatility (ii) | **38.82%** | 40.16% | 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;

(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.

Movement of number of issued redeemable convertible preferred shares at USD0.0001 each

| | **Series A preferred share** | **Series B preferred share** |
|---|---|---|
| At 1 January 2011 | — | — |
| Issue of redeemable convertible preferred shares | 15,384,000 | 16,025,000 |
| As at 31 December 2011 and 1 January 2012 | 15,384,000 | 16,025,000 |
| Converted from promissory notes | — | 4,006,250 |
| Issue of redeemable convertible preferred shares | — | 1,602,500 |
| At 31 December 2012 | 15,384,000 | 21,633,750 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 34. 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 Companies, to enhance the working capital and strengthen the capital base and financial position of 91 Limited's subsidiaries, which are engaged in mobile Internet business and for further investments by 91 Limited. The promissory notes bear no interest and become due and payable at the option of the note holders at any time on and after 20 March 2012 (the "Maturity Date"). The promissory notes bear interest of 8% per annum for the period from the date immediately after the Maturity Date and until the time the promissory notes are fully repaid.

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.

The conversion option of the promissory note is insignificant. 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.

## 35. SHARE CAPITAL

| | Number of shares | Nominal value | |
|---|---|---|---|
| | | USD | RMB'000 |
| **Authorised:** | | | |
| Ordinary shares of USD0.01 each | | | |
| At 1 January 2011, 31 December 2011 and 31 December 2012 | 1,000,000,000 | 10,000,000 | 75,771 |
| **Issued and fully paid:** | | | |
| Ordinary shares of USD0.01 each | | | |
| At 1 January 2011 and 31 December 2011 | 514,599,860 | 5,145,999 | 38,226 |
| Shares issued upon exercise of share options (Note i) | 349,163 | 3,491 | 22 |
| Repurchase and cancellation of shares (Note ii) | (9,635,500) | (96,355) | (716) |
| At 31 December 2012 | 505,313,523 | 5,053,135 | 37,532 |

## 35. SHARE CAPITAL (Cont'd)

Notes:

(i) During year ended 31 December 2012, 349,163 share options were exercised and as a result of 349,163 ordinary shares were issued. Approximately RMB22,000 and RMB1,896,000 were recorded as share capital and share premium, respectively.

(ii) For the year ended 31 December 2012, the Company repurchased 9,635,500 of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being recognised. The total amount incurred to acquire the shares was approximately RMB 45,773,000.

## 36. SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity-settled share option scheme

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

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 26,022,217 (31 December 2011: 23,651,900), representing 5.6% (31 December 2011: 4.60%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

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

Details of specific categories of options are as follows:

**Batch 1:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2012 |
|---|---|---|---|
| 7 December 2009 | N/A | 7 December 2009 - 6 December 2019 | 1,360,000 |
| 7 December 2009 | 7 December 2009 - 6 December 2010 | 7 December 2010 - 6 December 2019 | 1,360,000 |
| 7 December 2009 | 7 December 2009 - 6 December 2011 | 7 December 2011 - 6 December 2019 | 1,360,000 |
| 7 December 2009 | 7 December 2009 - 6 December 2012 | 7 December 2012 - 6 December 2019 | 1,360,000 |
| 7 December 2009 | 7 December 2009 - 6 December 2013 | 7 December 2013 - 6 December 2019 | 1,360,000 |
| | | | 6,800,000 |

**Batch 2:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2012 |
|---|---|---|---|
| 28 April 2011 | 28 April 2011 - 27 April 2012 | 28 April 2012 - 27 April 2021 | 1,007,747 |
| 28 April 2011 | 28 April 2011 - 27 April 2013 | 28 April 2013 - 27 April 2021 | 1,809,990 |
| 28 April 2011 | 28 April 2011 - 27 April 2014 | 28 April 2014 - 27 April 2021 | 2,413,320 |
| 28 April 2011 | 28 April 2011 - 27 April 2015 | 28 April 2015 - 27 April 2021 | 3,016,650 |
| 28 April 2011 | 28 April 2011 - 27 April 2016 | 28 April 2016 - 27 April 2021 | 3,619,980 |
| | | | 11,867,687 |

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

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

**Batch 3:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2012 |
|---|---|---|---|
| 22 July 2011 | 22 July 2011 - 27 April 2012 | 28 April 2012 - 27 April 2021 | 313,600 |
| 22 July 2011 | 22 July 2011 - 21 July 2012 | 22 July 2012 - 21 July 2021 | 151,905 |
| 22 July 2011 | 22 July 2011 - 27 April 2013 | 28 April 2013 - 27 April 2021 | 470,400 |
| 22 July 2011 | 22 July 2011 - 21 July 2013 | 22 July 2013 - 21 July 2021 | 287,813 |
| 22 July 2011 | 22 July 2011 - 27 April 2014 | 28 April 2014 - 27 April 2021 | 827,200 |
| 22 July 2011 | 22 July 2011 - 21 July 2014 | 22 July 2014 - 21 July 2021 | 462,850 |
| 22 July 2011 | 22 July 2011 - 27 April 2015 | 28 April 2015 - 27 April 2021 | 284,000 |
| 22 July 2011 | 22 July 2011 - 21 July 2015 | 22 July 2015 - 21 July 2021 | 84,187 |
| 22 July 2011 | 22 July 2011 - 27 April 2016 | 28 April 2016 - 27 April 2021 | 340,800 |
| 22 July 2011 | 22 July 2011 - 21 July 2016 | 22 July 2016 - 21 July 2021 | 101,025 |
| | | | 3,323,780 |

**Batch 4:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 2012 |
|---|---|---|---|
| 23 April 2012 | 23 April 2012 - 22 April 2013 | 23 April 2013 - 22 April 2022 | 497,800 |
| 23 April 2012 | 23 April 2012 - 22 April 2014 | 23 April 2014 - 22 April 2022 | 596,700 |
| 23 April 2012 | 23 April 2012 - 22 April 2015 | 23 April 2015 - 22 April 2022 | 995,600 |
| 23 April 2012 | 23 April 2012 - 22 April 2016 | 23 April 2016 - 22 April 2022 | 494,500 |
| 23 April 2012 | 23 April 2012 - 22 April 2017 | 23 April 2017 - 22 April 2022 | 593,400 |
| | | | 3,178,000 |

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

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

**Batch 5:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 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 |
| | | | 735,250 |

**Batch 6:**

| Date of grant | Vesting period | Exercisable period | Outstanding at 31 December 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 |
| | | | 117,500 |

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

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

The following table discloses the movement of the share options during the year ended 31 December 2012:

| **Option batch** | **Exercise price HKD** | **Outstanding at 1 January 2012** | **Granted during year** | **Exercised during year** | **Forfeited during year** | **Outstanding at 31 December 2012** |
|---|---|---|---|---|---|---|
| Batch 1 | **4.33** | **6,800,000** | **–** | **–** | **–** | **6,800,000** |
| Batch 2 | **4.80** | **13,201,400** | **–** | **(209,193)** | **(1,124,520)** | **11,867,687** |
| Batch 3 | **4.60** | **3,650,500** | **–** | **(139,970)** | **(186,750)** | **3,323,780** |
| Batch 4 | **5.74** | **–** | **3,234,000** | **–** | **(56,000)** | **3,178,000** |
| Batch 5 | **6.53** | **–** | **735,250** | **–** | **–** | **735,250** |
| Batch 6 | **7.20** | **–** | **117,500** | **–** | **–** | **117,500** |
| | | **23,651,900** | **4,086,750** | **(349,163)** | **(1,367,270)** | **26,022,217** |
| Exercisable at the end of the year 2012 | | | | | | **6,913,252** |
| Weighted average exercise price | | **HKD4.63** | | | | **HKD4.83** |

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

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

No share options were exercised during the year 2011. The number of share options outstanding at 31 December 2012 was 26,022,217.

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

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

The fair value of the 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 | (1,367,270) |
| Exercised during the period | (349,163) |
| Outstanding as at 31 December 2012 | 26,022,217 |

The Group recognised the total expense of approximately RMB12,584,000 for the year ended 31 December 2012 (2011: RMB9,903,000) in relation to share options granted by the Company.

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

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

(ii) Share award scheme by the Company

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

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

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

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

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

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

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

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

(ii) Share award scheme by the Company (Cont'd)

The current Performance Conditions proposed by the Committee is that shares will only be vested to the employees rendering services for period. Each employee needs to render the agreed period service in order to be entitled to the shares granted.

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 RMB125,000 for the year ended 31 December 2012 (2011: RMB182,000) in relation to Award.

Movements in the share awards granted during the year ended 31 December 2012 are as follows:

| Name of category of participant | Date of grant | Outstanding at 1 January 2012 | Granted during year | Awards vested during year | Outstanding at 31 December 2012 |
|---|---|---|---|---|---|
| Other employees | 15 October 2008 | 79,677 | – | (79,677) | – |
| Directors | 31 December 2012 | – | 591,057 | – | 591,057 |
| Other employees | 31 December 2012 | – | 995,943 | – | 995,943 |
| | | 79,677 | 1,587,000 | (79,677) | 1,587,000 |

The fair value of the share awards granted on 31 December 2012 was approximately RMB17,584,000.

Among the Award granted on 15 October 2008, 376,832 share awards vested on 6 November 2008, 376,832 share awards vested on 6 November 2009, 524,594 share awards vested on 6 November 2010, 229,065 share awards vested on 6 November 2011 and the remaining 79,677 share awards vested on 6 November 2012.

Among the Award granted on 31 December 2012, 317,400 share awards vest on 8 February 2013, 317,400 share awards vest on 8 February 2014, 317,400 share awards vest on 8 February 2015, 317,400 share awards vest on 8 February 2016 and the remaining 317,400 share awards vest on 8 February 2017.

The Award is normally released to the selected employees within one month after the vesting date.

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

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

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

(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.

The number of shares granted during the current year and the number of shares award outstanding as at 31 December 2012 under 91 Share Award Scheme was 9,732,550 (31 December 2011: Nil) and 6,815,122.

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

| **Grant Date** | **Relevant vesting date** | **No. of awarded shares to be vested** |
|---|---|---|
| 8 February 2012 | 7 June 2013 | 823,983 |
| 8 February 2012 | 7 June 2014 | 509,351 |
| 31 December 2012 | 31 January 2013 | 418,350 |
| 31 December 2012 | 31 December 2013 | 1,269,462 |
| 31 December 2012 | 31 January 2014 | 418,350 |
| 31 December 2012 | 31 December 2014 | 1,269,462 |
| 31 December 2012 | 31 January 2015 | 418,350 |
| 31 December 2012 | 31 December 2015 | 1,269,464 |
| 31 December 2012 | 31 January 2016 | 418,350 |
| | | 6,815,122 |

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

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

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% and 15.55% were used for the batch granted on 8 February 2012 and 31 December 2012, respectively. The fair value of the 91 Award granted on 8 February 2012 and 31 December 2012 was approximately RMB10,247,000 and RMB80,783,000, respectively.

The Group recognised the total expenses of approximately RMB22,024,000 for the year ended 31 December 2012 (2011: Nil) in relation to the 91 Share Award Scheme.

## 37. ACQUISITION OF A SUBSIDIARY

On 17 August 2012, the Group entered into an agreement with independent third parties to acquire 100% equity interests in a subsidiary, 福州軟件職業技術學院 (hereinafter called "Occupation Technology Institute") at consideration of RMB12,000,000. The transaction was completed on 1 November 2012. Occupation Technology Institute is principally engaged in providing education of software development and computer technical training.

## 37. ACQUISITION OF A SUBSIDIARY (Cont'd)

Assets and liabilities recognised at the date of acquisition

| | RMB'000 |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 42,380 |
| **Current assets** | |
| Other receivables and prepayment | 15,468 |
| Bank balances and cash | 14,556 |
| **Current liabilities** | |
| Other payables | (52,938) |
| Bank borrowing | (20,000) |
| **Net liabilities** | (534) |

Goodwill arising on acquisition

| | |
|---|---|
| Consideration paid in cash | 12,000 |
| Add: Net liabilities | 534 |
| | 12,534 |

Net cash inflow arising on acquisition

| | RMB'000 |
|---|---|
| Consideration paid in cash | (12,000) |
| Less: cash and cash equivalent balances acquired | 14,556 |
| | 2,556 |

Included in the profit for the year is the loss of approximately RMB1,003,000 attributable to the additional business generated by Occupation Technology Institute. Revenue for the year includes RMB5,390,000 generated from Occupation Technology Institute.

Had the acquisition been completed on 1 January 2012, total group revenue for the year would have been RMB1,135 million, and profit for the year would have been RMB34 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

## 38. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| **Assets and liabilities** | | |
| Investments in subsidiaries | 167,871 | 167,871 |
| Other receivables and prepayment | 136 | 339 |
| Amounts due from subsidiaries | 944,659 | 929,674 |
| Bank balances and cash | 62,366 | 92,633 |
| Other payables | (20,786) | (19,657) |
| Amounts due to subsidiaries | (1,894) | (1,894) |
| | 1,152,352 | 1,168,966 |
| **Capital and reserves** | | |
| Share capital | 37,532 | 38,226 |
| Share premium and reserves | 1,114,820 | 1,130,740 |
| | 1,152,352 | 1,168,966 |

Note:

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Movement in the reserves: | | |
| 1 January | 1,130,740 | 1,140,001 |
| Repurchase and cancellation of shares | (45,057) | (44,359) |
| Profit for the year | 128,100 | 77,964 |
| Recognition of equity-settled share-based payments | 12,709 | 10,085 |
| Share issued upon exercise of share options | 1,317 | — |
| Dividend | (112,989) | (52,951) |
| 31 December | 1,114,820 | 1,130,740 |

## 39. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank loan and promissory notes, redeemable convertible preferred shares and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

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

## 40. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **1,845,025** | 1,529,626 |
| Held for trading investments | **4,939** | — |
| Available-for-sale investments | **5,000** | 4,000 |
| **Financial liabilities** | | |
| Amortised cost | **566,075** | 277,490 |
| Other financial liability | **10,679** | — |
| Conversion option derivative liability | **314,829** | 39,932 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 40. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies

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

*Market risk*

*(i) Currency risk*

The Group operates mainly in the PRC. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB. However, the Group also has operations in Hong Kong and the USA and the business transactions conducted there during the year were mainly denominated and settled in HKD and USD respectively. The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management closely monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner.

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

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| HKD | **271,804** | 72,296 | **265,821** | 30,352 |
| USD | **287,134** | 342,426 | **511,151** | 203,440 |
| EURO | **194,405** | – | **10,679** | – |

## 40. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Market risk (Cont'd)*

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

Sensitivity analysis

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

| | **2012** | 2011 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Profit for the year | | |
| HKD | **(299)** | (1,573) |
| USD | **11,201** | (5,212) |
| EURO | **(9,186)** | — |

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

## 40. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Market risk (Cont'd)*

*(ii) Interest rate risk*

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

The Group is exposed to fair value interest rate risk in relation to fixed rate loan receivables (set out in note 21), pledged bank deposit and secured bank loan (set out in note 31). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The cash flow interest rate risk relates primary to the Group's bank deposits (set out in note 28) carried at prevailing banking deposit rates. The Group's bank deposits are short-term in nature and the exposure of the interest rate risk for bank deposits are considered minimal and no sensitivity to interest rate risk is presented.

*Other price risk*

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

Sensitivity analysis

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

If the expected volatility had been 5% higher/lower and all other variables were held constant, the carrying amount of the conversion option derivative would increase by approximately RMB3,457,000 /decrease by approximately RMB3,889,000 (2011: increase by approximately RMB41,876,000 /decrease by approximately RMB38,076,000).

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

## 40. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Credit risk*

As at 31 December 2012, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

*Liquidity risk*

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

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

## 40. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Liquidity risk (Cont'd)*

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

Liquidity tables

| | Weighted average interest rate % | On demand or less than 1 year RMB'000 | Over 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Trade and other payables | – | 181,644 | – | 181,644 | 181,644 |
| Amounts due to related companies | – | 121 | – | 121 | 121 |
| Amount due to an associate | – | 5,600 | – | 5,600 | 5,600 |
| Secured bank loan | 4.14 | 187,011 | – | 187,011 | 183,595 |
| Other financial liability – net settle | – | 10,679 | – | 10,679 | 10,679 |
| Redeemable convertible preferred shares | 16.834 | – | 230,223 | 230,223 | 195,115 |
| Conversion option derivative liability | – | – | 314,829 | 314,829 | 314,829 |
| | | 385,055 | 545,052 | 930,107 | 891,583 |

| | Weighted average interest rate % | On demand or less than 1 year RMB'000 | Over 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|
| 2011 | | | | | |
| Trade and other payables | – | 114,227 | – | 114,227 | 114,227 |
| Amounts due to related companies | – | 965 | – | 965 | 965 |
| Promissory notes | 15.64 | 31,505 | – | 31,505 | 30,623 |
| Redeemable convertible preferred shares | 16.834 | – | 244,746 | 244,746 | 131,675 |
| Conversion option derivative liability | – | – | 39,932 | 39,932 | 39,932 |
| | | 146,697 | 284,678 | 431,375 | 317,422 |

## 40. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Fair value*

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

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

Financial instruments that are measured subsequent to initial recognition at fair value, are grouped in to Levels 1 to 3 based on the degree to which the fair value is observable.

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

| | 31 December 2012 | | | |
|---|---|---|---|---|
| | **Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | **Total RMB'000** |
| **Financial asset at FVTPL** | | | | |
| Held for trading investments | 4,939 | – | – | 4,939 |
| **Financial liabilities at FVTPL** | | | | |
| Other financial liability | – | 10,679 | – | 10,679 |
| Conversion option and other derivatives | – | – | 314,829 | 314,829 |
| | – | 10,679 | 314,829 | 325,508 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

## 40. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

*Fair value (Cont'd)*

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial liability at FVTPL** | | | | |
| Conversion option and other derivatives | – | – | 39,932 | 39,932 |

Details of reconciliation from the beginning balance to the ending balance of Level 3 fair value measurement of financial liability regarding conversion option and other derivatives component of redeemable convertible preferred shares are set out in note 33. There is no transfer between Level 1 and Level 2 during both years.

## 41. RETIREMENT BENEFITS PLANS

Defined contribution plan

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

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs or HKD1,250 per person per month to the scheme (HKD1,000 prior to 1 June 2012), whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2012 made by the Group amounted to approximately RMB29,702,000 (2011: RMB19,608,000).

## 42. RELATED PARTY TRANSACTIONS

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

The Group had the following significant related party transactions and balances during the year with certain companies in which some directors and shareholders of the Company can exercise significant influence or control.

Nature of transactions

| | **2012 RMB'000** | 2011 RMB'000 |
|---|---|---|
| Rentals charged by Fuzhou 851 | **6,562** | 6,000 |
| Service fee at recreation centre paid to Fuzhou 851 | **6,341** | 2,544 |
| After-sales service fee paid to Fuzhou Tianliang | **12,200** | 12,199 |
| Technical service fee paid to Fuzhou Tianliang | **2,600** | 2,438 |
| Interest received on loan advanced to key management | **(88)** | (71) |
| Technical service fee received from Jiangsu BoDe | **(3,060)** | — |

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 year ended 31 December 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 31 December 2012 were loans advanced to key management of approximately RMB2,400,000 (31 December 2011: RMB1,700,000). The loans carry fixed interest at the rate from 4.48% to 4.89% per annum of which RMB900,000, RMB200,000, RMB200,000, RMB100,000 and RMB1,000,000 is repayable in whole in 2013, 2014, 2015, 2016 and 2017, respectively.

Compensation of key management personnel

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

| | **2012 RMB'000** | 2011 RMB'000 |
|---|---|---|
| Salaries, allowances and other short-term employee benefits | **4,096** | 6,401 |
| Contribution to retirement benefits schemes | **82** | 93 |
| Share-based payments expense | **8,361** | 2,888 |
| | **12,539** | 9,382 |

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

## 43. CAPITAL COMMITMENTS

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

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **124,438** | 134,289 |

## 44. OPERATING LEASE COMMITMENTS

The Group as lessee

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

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Within one year | **19,638** | 7,963 |
| In the second to fifth year inclusive | **24,912** | 4,024 |
| Over five years | **13,237** | 12,024 |
| | **57,787** | 24,011 |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 5 years for office premises. Rentals are fixed over the respective leases.

The Group as lessor

Property rental income earned during the year was approximately RMB448,000 (2011:RMB303,000). The property is expected to generate rental yields of 2.2% (2011: 2.1%) on an ongoing basis. The property held has committed tenants for the next 2 years.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Within one year | **426** | 188 |
| In the second to fifth year inclusive | **346** | – |
| | **772** | 188 |

## 45. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2012 and 2011 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/ operations | Issued and fully paid up ordinary share/ registered capital | Proportion of registered capital /issued share capital/equity interests and voting power held by the Company directly % 2012 | directly % 2011 | indirectly % 2012 | indirectly % 2011 | Principal activities |
|---|---|---|---|---|---|---|---|
| NetDragon Websoft Inc. | BVI | USD222,203.93 | 100 | 100 | - | – | Investment holding |
| NetDragon (Fujian)* | PRC | RMB10,000,000.00 | - | – | - | – | Operation of online games |
| TQ Digital # | PRC | RMB345,000,000.00 | - | – | 100 | 100 | Development of online games and licensing and servicing of the developed games |
| NetDragon (Shanghai) * | PRC | RMB1,000,000.00 | - | – | - | – | Provision of support services to the Group |
| NetDragon Websoft Inc. | USA | USD600,000.00 | - | – | 100 | 100 | Provision of support services to the Group |
| NetDragon Websoft (HongKong) Limited (網龍香港有限公司) | Hong Kong | HKD1.00 | - | – | 100 | 100 | Licensing and servicing of the developed games and provision for support services to the Group |
| Glory More Limited (展凱有限公司) | Hong Kong | HKD1.00 | - | – | 100 | 100 | Investment holding |
| TQ Online # | PRC | RMB50,000,000.00 | - | – | 100 | 100 | Development of online games and licensing and servicing of developed games |
| 福州網龍天像科技有限公司 # (Fujian NetDragon TianXiang Technology Inc.) | PRC | RMB50,000,000.00 | - | – | 100 | 100 | Investment holding |
| 91 Limited | Cayman Islands | USD7,406.00 | - | – | 100 | 100 | Investment holding |
| Fuzhou BoYuan Wireless Websoft Technology Limited # ("Fuzhou BoYuan") | PRC | RMB33,000,000.00 | - | – | 100 | 100 | Provision of consulting services |
| Fujian Bo Rui Websoft Technology Limited * ("Fuzhou Bo Rui") | PRC | RMB10,000,000.00 | - | – | - | – | Operation of mobile Internet business |

## 45. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (Cont'd)

* The Group's control over, and beneficial interest in the equity of, these entities exist by virtue of certain contractual arrangements entered into with the Ultimate Controlling Shareholders involving these entities, which are established as limited liability companies under PRC law. The Group does not hold ownership interest in the registered capital of these subsidiaries. However, under the contractual agreements entered into among the entities, the Ultimate Controlling Shareholders who are the owners of the registered capital of these entities and the Group, the Group controls these entities by way of controlling all voting rights in owners' meetings of these entities and governing their financial and operating policies. Under the contractual arrangements, management committees are established to oversee the businesses and operations of these entities in order to ensure and facilitate the implementation of the contractual arrangements. The management committees shall comprise of members, all of whom have to be directors of TQ Digital and Fuzhou BoYuan, subsidiaries of the Company, in order that the decision-making rights and the operating and financing activities of these entities are ultimately controlled by the Company. The Company is also entitled to substantially all of the operating profits and residual benefits by charging service fee equal to net profit generated by these entities under the contractual arrangements. In addition, the owners of the registered capital of these entities have irrecoverably authorised TQ Digital and Fuzhou BoYuan to exercise all their voting rights in NetDragon (Fujian), NetDragon (Shanghai) and Fujian Bo Rui, including the appointment and removal of the directors of these entities. As a result, these entities are regarded as subsidiaries under the control of the Group. Accordingly, the results of these entities, if any, and their assets and liabilities are included in the consolidated financial statements.

\# Wholly foreign owned enterprise.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the result or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 46. EVENT AFTER THE REPORTING PERIOD

On 8 February 2013, the Company announced that 91 Wireless Websoft Limited (formerly known as "91 Limited"), a subsidiary of the Group incorporated on 4 January 2011 in the Cayman Islands, had submitted a listing application to the Stock Exchange for the listing of the ordinary shares of 91 Limited on the Growth Enterprises Market of the Stock Exchange.

Further details of the spin-off of 91 Wireless Websoft Limited are set out in the announcements of the Company dated 6 and 8 February 2013.