2013

Annual Report

NETDRAGON WEBSOFT INC.

網龍網絡有限公司

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

CONTENTS

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. Cheung Yuet Fan, *ACIS, ACS*

QUALIFIED ACCOUNTANTS

Mr. Yam Kwok Hei, Benjamin, *HKICPA, CA, CFA*
Mr. Lau Hak Kin, Wood, *HKICPA, FCCA, CFA*

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
Mr. Yam Kwok Hei, Benjamin

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Ms. Cheung Yuet Fan

HONG KONG LEGAL ADVISER

Sidley Austin

PRC LEGAL ADVISER

Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of America
China Minsheng Banking Corp. Ltd.
The Hongkong and Shanghai Banking Corporation

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
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

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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COMPANY WEBSITE

www.nd.com.cn

CORPORATE PROFILE

NetDragon Websoft Inc. ("NetDragon" or the "Company") was established in 1999 with its headquarters located at Fuzhou City of Fujian Province of the People's Republic of China (the "PRC"). It has been one of the leading online game and mobile Internet application developers and operators in the PRC and is committed to become a pioneer in various new sectors such as online education and creative industrial bases. 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: 00777.HK) and became a constituent stock of the Hang Seng Family of Indexes on 9 September 2013.

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 application products with intellectual property rights, and has become a forerunner in the PRC online game and mobile Internet industries 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, and 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. Besides, the Company 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) issued by the State Administration of Press, Publication Radio, Film and Television and the Ministry of Information Industry, and was awarded as the "Enterprise of Outstanding Internet Culture" (優秀網絡文化企業) by the Ministry of Culture as well as a series of national prizes. In December 2013, the Company was recognized as one of the "2013 Top 10 Game Enterprises for Overseas Expansion in China" (2013年度中國十大海外拓展遊戲企業) in the China Game Industry Annual Conference.

NetDragon endeavours in self-developed games and strives to promote the development of online game industry. To date, it has successfully launched and has been operating various flagship online games with diversified themes, including Eudemons Online, Conquer Online, Zero Online, Tou Ming Zhuang Online and Monster & Me, and successfully launched its first web game – COS* (英魂之刃). Meanwhile, NetDragon is developing games for different types of players to further expand and enrich its product lines. Currently, NetDragon and its subsidiaries (the "Group") is developing an online war game – Tiger Knight* (虎豹騎), which will be launched soon afterwards.

In respect of overseas market, NetDragon is the vanguard of the PRC online game enterprises to enter the international market with self-owned operations. It has become one of the largest Chinese online game operators in overseas game markets with a variety of products covering 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 interactive entertainment industry giants, marking a historic step of domestic online games to explore overseas markets.

Since the commencement of mobile Internet sector in 2008, NetDragon has established highly professional program development and operation teams and become one of the leaders in the PRC mobile Internet industry. The "91 Assistant"* (91助手) (formerly known as "91 PC Suite") launched by the Company is one of the most popular smart phone management tools for smart phone users, and HiMarket* (安卓市場) is the earliest and largest third party download platform for Android software and games in the PRC. During the year under review, NetDragon disposed 91 Wireless Websoft Limited and its subsidiaries ("91 Group") to Baidu (Hong Kong) Limited ("Baidu HK", a wholly-owned subsidiary of Baidu, Inc.), which marked an important milestone in the development of the Internet and the mobile Internet industry.

* *For identification purpose only*

Subsequent to the disposal of 91 Group, the strategic focus of the Group in the mobile Internet sector turned to the development and operation of mobile Internet games. By leveraging on its competitive edges accumulated over the years in the development and operation of MMORPGs, NetDragon launched a number of typical mobile games such as Crazy Tribe* (瘋狂部落), Evil Spirits* (妖界) and The Pirate* (大海盜) and performed external and internal tests for a number of game products such as Celestial Saga* (戰蒼穹), Micro Western Odyssey* (微西遊), Fatal Fighter* (全球快打), Most Runescape* (最江湖), Age of Egmont* (獵龍戰記) and Eudemons Online Pocket Version* (魔域口袋版), which provide sufficient product reserve for the Group to launch new mobile games constantly. Meanwhile, the Group launched the Korean version of Warring States* (戰國天下), the traditional Chinese version of Crazy Tribe* (瘋狂部落), the mobile English version of Conquer Online and the Arabic version of The Pirate* (大海盜) successively in overseas markets, which helped to maintain its competitive edges in the distribution and operation of games in overseas markets.

The net proceeds from the disposal of 91 Group and the positive cash flows from online games business will provide strong financial support for the Group to explore new strategic businesses and lay a solid foundation to develop new projects. Currently, the Group has established businesses in various emerging strategic fields, such as online education and creative industrial bases, and it has confidence to develop such businesses into the leaders in their respective sectors.

NetDragon has been devoting in enhancing originality and innovation of research and development as its core competitiveness for years. Technologically, NetDragon has successively developed its own 2D and 2.5D game-making engines, and has made substantial investment in launching motion capture devices and the most advanced 3D game development engine in the industry and possesses technologies for developing different types of online games. In terms of talent training, NetDragon believes that recruiting and training talents are forms of investments and provide competitive remuneration packages to retain them. Its subsidiary Fujian TQ Digital Inc. ("TQ Digital") stands as one of the leading online game development teams in the PRC. With regard to corporate management, NetDragon employ its own ERP management system to monitor and supervise the whole process of games development and strive to create a favourable learning environment supported by Internet technologies.

* *For identification purpose only*

GROUP FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

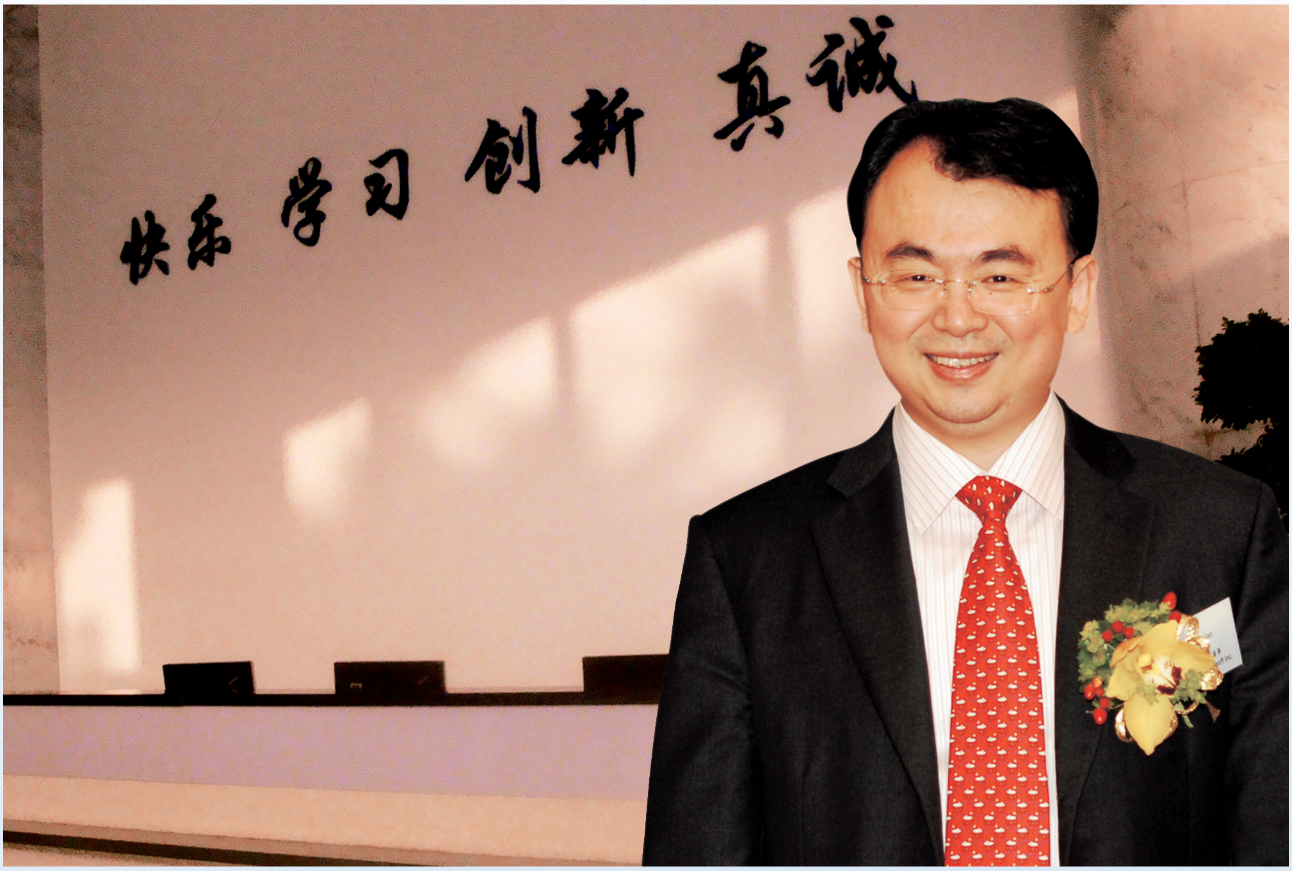
	For the year ended 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
Revenue	621,836	531,772	760,974	1,108,349	**1,492,706**
Cost of revenue	(84,325)	(66,333)	(75,032)	(116,359)	**(159,638)**
Gross profit	537,511	465,439	685,942	991,990	**1,333,068**
Other income and gains	57,807	60,864	38,156	50,025	**51,956**
Selling and marketing expenses	(133,460)	(101,993)	(140,340)	(152,173)	**(167,804)**
Administrative expenses	(163,926)	(182,022)	(210,941)	(247,628)	**(441,132)**
Development costs	(201,461)	(162,234)	(159,269)	(204,173)	**(220,730)**
Other expenses	(1,959)	(10,392)	(11,594)	(27,153)	**(25,225)**
Share of losses of associates	—	—	(581)	(1,456)	**(953)**
Share of (losses) profit of joint ventures	(724)	—	—	(1,391)	**796**
Operating profit	93,788	69,662	201,373	408,041	**529,976**
Interest income on pledged bank deposit	—	—	—	4,849	**4,883**
Exchange gain on pledged bank deposit, secured bank borrowing and redeemable convertible preferred shares	—	—	—	11,909	**5,726**
Net (loss) gain on derivative financial instruments	(15,214)	—	(17,792)	(282,424)	**27,223**
Net gain on financial assets designated as fair value through profit or loss	18,431	—	—	—	**–**
Gain on disposal of available-for-sale investment	—	—	—	—	**5,761**
Net (loss) gain on held for trading investments	—	—	—	(61)	**8,756**
Gain on disposal of subsidiaries, net of related income tax	—	—	—	—	**5,811,963**
Finance costs	—	—	(3,806)	(28,417)	**(15,526)**
Profit before taxation	97,005	69,662	179,775	113,897	**6,378,762**
Taxation	(10,381)	(34,769)	(44,532)	(74,936)	**(156,314)**
Profit for the year	86,624	34,893	135,243	38,961	**6,222,448**

	For the year ended 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Attributable to:					
– Owners of the Company	87,108	34,949	135,161	39,176	**6,140,776**
– Non-controlling interests	(484)	(56)	82	(215)	**81,672**
Profit for the year	86,624	34,893	135,243	38,961	**6,222,448**
Earnings per share					
– Basic (RMB cents)	16.57	6.64	25.85	7.71	**1,213.44**
– Diluted (RMB cents)	16.56	6.64	25.85	7.60	**1,181.10**

Note: The results for the years ended 31 December 2012 and 2013 were presented on a combined basis of results of the Group from both continuing and discontinued operations.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	184,170	272,897	340,833	562,833	**846,894**
Current assets	1,367,941	1,287,043	1,555,987	1,882,520	**4,603,095**
Non-current liabilities	–	–	(171,607)	(516,085)	**–**
Current liabilities	(96,290)	(108,783)	(226,319)	(513,265)	**(827,111)**
Non-controlling interests	484	540	458	(22,154)	**(7,736)**
Equity attributable to owners of the Company	1,456,305	1,451,697	1,499,352	1,393,849	**4,615,142**



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 2013.

OUR MISSION

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

The Group has over 10 years of experience in the online game industry in respect of self-developed research and development as well as operation of high quality online game products. A range of original online games, such as Eudemons Online (魔域) and Conquer Online (征服), have gained recognition from global game players. Capitalizing on our strong research and development capabilities and operational experience accumulated over the years, we are always confident in achieving continuous success in the online game industry.

Moreover, after the disposal of 91 Wireless Websoft Limited and its subsidiaries ("91 Group") to Baidu (Hong Kong) Limited ("Baidu HK", a wholly-owned subsidiary of Baidu, Inc.) in 2013, the Group will continue in developing the online game business, leveraging on our research and development ("R&D") and operational experience in MMORPGs accumulated over the years, and increase investments in the research and development of mobile games. During the year under review, a number of high quality mobile games have been launched successively.

Finally, the net proceeds gained from the disposal of 91 Group have provided a strong financial support to our Group's ongoing expansion into strategic emerging businesses and establish a solid foundation for the development of new projects by the Group.

OUR ACHIEVEMENTS

2013 was a year of critical significance in the development history of NetDragon. Under the concerted efforts of our management and all staff, the Company has maintained the ongoing and sound growth of our mobile game business which has provided continuous cash flows to support the development of various businesses, and after NetDragon has successfully disposed 91 Group, huge returns have been recouped for the Company's prior substantial investments of resources and efforts in the mobile Internet business, and provided a strong financial support to newly developed projects. Total revenue of the Company recorded in 2013 was approximately RMB1,492.7 million, increased by approximately 34.7% as compared to 2012. The audited operating profit for 2013 was approximately RMB530.0 million, increased by approximately 29.9% as compared to 2012. Profit attributable to the owners of the Company was approximately RMB6,140.8 million in 2013, increased by approximately 15,574.8% as compared to 2012. Meanwhile, the Group continued to maintain a sound financial position with cash and bank balances of approximately RMB4,463.0 million as at 31 December 2013, ensuring the healthy and sustainable development of the Group in future.

For our online game business, revenue from online games of the Group maintained a stable growth in 2013 in general, the full year revenue from the online game business was approximately RMB884.5 million, increased by approximately 7.1% as compared to the prior year. Facing the trend of intensifying competition in both the domestic and international online game markets, the Group has been able to maintain the interest of players by focusing on the introduction of new expansion packs to lengthen the lifespan of existing games and bring stable cash flows to the Group. During the year under review, new expansion packs for major products such as Eudemons Online (魔域), Zero Online (機戰), Conquer Online (征服) and Tou Ming Zhuang Online (投名狀Online) were launched and effectively extended the lifespan of products. In overseas markets, we continued to operate our online game products in a number of countries and regions with market potential, such as the successive launching of a number of language versions for overseas versions of expansion packs for our main product, Conquer Online (征服), and further focused research and development and operational efforts in consolidating the market shares of flagship products to enhance competitiveness in various countries and regions.

For mobile Internet business, before the disposal of 91 Group, the Group's mobile Internet business has always maintained the leading position in the mobile Internet industry in China. The cumulative download volumes of the two major distribution platforms, "91 Assistant"* (91助手) (formerly known as "91 PC Suite") and "HiMarket"* (安卓市場), had already exceeded 10 billion in the first quarter of 2013. After the disposal of 91 Group, the strategic focus of the Group's mobile Internet business has switched to the development and operation of mobile Internet games, and has achieved remarkable progress during the year under review with the launching of many mobile game products, such as Crazy Tribe* (瘋狂部落), Evil Spirits* (妖界) and The Pirate* (大海盜). In order to lengthen the lifespan of mobile game products, the Group has also successively launched updated versions of cross-platform mobile games, such as Warring States* (戰國天下), Chaos Hero* (亂世封神) and Legend of Emperors* (帝王傳), in order to attract more players.

In future, the Group will invest more resources in the development of emerging strategic businesses. During the year under review, the Group has gradually built up an overall project structure for online education for the projects of "Open Education Cloud Platform"* (開放教育雲平台) and student tablets, with a view to establish an overall life-long learning system covering kindergarten to university for the aged, and gain a favourable position in this vigorously developing market.

OUR FUTURE

Looking ahead, the Group will attract quality talents in the industry through training and cultivation as it always did to maintain the Group's strong research and development and operational capabilities of online games. While expanding product lines continuously, the Group will also update existing games on timely basis and provide new differentiated expansion packs to lengthen their lifespans and increase the revenue from online games steadily. Meanwhile, in view of the current intensifying competitive conditions in the domestic online game market, the Group will focus more on expanding into overseas emerging markets with strong market potential, and further strengthen the leading position of the Group in the global online game industry.

Besides, the Group will increase investments in the mobile Internet game business, conforming to the adjusted strategic direction. While emphasizing on the transferring of R&D and operational experience of large-scale Internet online games, through capturing user demand accurately and launching game products catering to mobile Internet user preferences, a new breakthrough in this area is expected to be achieved rapidly. In 2014, the Group is planning to launch a series of innovative mobile Internet game products, including Eudemons Online Pocket Version* (魔域口袋版), Micro Western Odyssey* (微西遊), Celestial Saga* (戰蒼穹) and Age of Egmont Pocket Version* (獵龍戰記口袋版), to attract more players.

* *For identification purpose only*

Finally, the Group will fully utilize the advantages brought by the abundant cash flows and strong capital funds on disposal of matured business to firmly grasp the vast future market opportunities for online education. By riding on the fast development trend of mobile Internet and developing businesses via unique learning methods brought by smart mobile equipment, strengthening the resources for the "Online Education Cloud Platform"* (「在線教育雲平台」) which forms the foundation of the project, and fully utilizing the cooperation between Foxteq Holdings Inc., an indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd. and Vision Knight Capital (China) Fund I, L.P., online education products endorsed by users will be launched continuously. At the same time, the Group will accelerate the construction progress of Fuzhou Software Technology Vocational College to provide more quality talents for the long-term development of the Group. The Group will also value strategic opportunities arising from more new sectors to ensure greater success of the Group in future.

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

DIVIDEND

The Board has proposed to distribute a final dividend of HKD0.20 per share for the financial year ended 31 December 2013.

APPRECIATION

I would like to thank the management and staff for their dedication in 2013, and express my sincerest gratitude to all our shareholders and investors for their confidence in and concern to NetDragon.

Liu Dejian
Chairman

Hong Kong, 27 March 2014

* *For identification purpose only*


魔域
末日之灵

(1) INDUSTRY REVIEW

CHINA ONLINE GAME INDUSTRY

In general, the online game industry in the PRC continued its rapid growth in 2013 with a notable increase in the number of users and products and a good momentum for growth in various sectors including online games, mobile Internet games and web games. Among which, mobile Internet games gained an explosive growth and became the biggest bright spot in the PRC online game market in 2013 as the penetration rate of 3G and 4G networks increased.

In 2013, the total revenue of the PRC game market amounted to RMB83.17 billion[①], an increase of 38.0% over last year[①]. In spite of a decrease in market share, online games contributed to more than half of the total revenue of the game market. Mobile games showed an evident escalating tendency in revenue growth, rendering the year of 2013 the start of the mobile games era. Web games maintained a growth in revenue despite a decrease in the number of newly launched products.

In respect of online games, in 2013, due to the combined effects of various factors such as upgrading of engine technologies, improving capabilities of hardware devices in processing graphics and the in-depth study on players performed by research and development ("R&D") and operation personnel as well as their increasing capabilities to meet the demand of players, the quality of online games improved steadily and achieved a total number of users of approximately 150 million[①], representing an increase of 8.6% over last year[①], and a total revenue of RMB53.66 billion[①], representing an increase of 18.9% compared to 2012[①], evidencing that online games remained as a dominating role in the PRC online game market. In contrast, due to the expansion of the mobile Internet games market, the market share of online games declined 10.4% year on year[①] to 64.5%[①]. In terms of sales revenue, the two games categories in the PRC online game, role play online games (with an actual sales revenue of RMB35.29 billion[①]) and leisure and sports online games (with an actual sales revenue of RMB18.37 billion[①]), occupied a market share of 65.8%[①] and 34.2%[①] respectively.

In respect of mobile games market, due to its relatively low entry barrier, expansion of distribution channels and the improvement in the mobile Internet environment in the PRC, large-scale online games companies with years of experiences in R&D and operation, traditional enterprises with strong financial strength and a large number of small-to-medium sized entrepreneurial teams characterized by "light capital" entered into this sector, resulting in a momentum for rapid growth in the three core statistical figures of the mobile game market – number of users, market share and market scale. In 2013, the number of mobile game users in the PRC reached 310 million[①] with an actual sales revenue of approximately RMB11.24 billion[①], representing a sharp increase of 248.5%[①] and 246.9%[①] compared to 2012 respectively. Meanwhile, the market share of mobile games reached 13.5%[①], representing an increase of 8.1% over last year[①].

In respect of web games market, due to the improving capabilities of web browsers, the quality of web games catches up gradually with the quality of online games, and this has become an important force supporting the steady growth of the web game market. In 2013, the number of web game users in the PRC reached 330 million① with an actual sales revenue of approximately RMB12.77 billion① and a market share of 15.4%①, representing an increase of 21.2%①, 57.5%① and 1.9%① year on year respectively. Meanwhile, the revenue base of web games expanded and web games stepped from the previous stage with fast growth into a stage with stable growth, while the competition in the web game market evolved gradually from disorderly competition into orderly competition, with mature competition rules and market landscape basically established.

From a global perspective, in 2013, self-developed online games in the PRC achieved positive results in overseas markets, with a sustained rapid growth in total export value and notable increase in the number of exported products. Also, products are available in more countries and regions and more emerging markets are explored by PRC online game enterprises. Many online game enterprises were no longer constrained to the simple operation mode of authorized export and tried to operate in a diversified manner such as setting up overseas subsidiaries to operate directly and undertaking international mergers and acquisitions, so as to increase their revenue from overseas markets. In 2013, sales revenue from overseas markets amounted to RMB1.82 billion①, representing an increase of 219.3%① as compared to 2012 and indicating an evident momentum for growth.

To sum up, currently China's game industry is experiencing significant changes along with continued rapid growth. The trend of diversification of games and development of multiple terminals becomes increasingly clear, and new game rules and fresh experience provided to game players in mobile internet are gradually changing the market landscape where online games occupy an overwhelmingly dominant position. "Diversified development based on multiple terminals" (多端並存、多元發展) will become a new circumstance facing China's game industry. It can be predicated that with the combined effects of government policies to cultural industries, public demand and efforts made by game operators, there will be huge potential growth for China's online game industry.

Source:

① *2013 Report on the China Game Industry (2013年中國遊戲產業報告), Game Publication Committee of China Audio-video and Digital Publishing Association*

CHINA' S MOBILE INTERNET INDUSTRY

2013 was a year in which China's mobile internet market achieved explosive growth and the industry showed a momentum of booming development. In terms of the market size, the total output of China's mobile Internet market maintained rapid growth and reach RMB165.04 billion[1], representing a year-on-year increase of 94.1%[1].

As for user number, as at December 2013, the number of China's mobile Internet users reached 652 million[2]. With the decrease in prices of mobile terminals and the wide application of WIFI equipment, the number of mobile Internet users will continue to grow fast to become close to the number of PC Internet users. It is expected that by the first quarter of 2014 the total number of mobile Internet users will exceed that of PC Internet users in the PRC and mobile phones' position as the most widely used Internet terminal will further consolidate. As for the breakdown of users in 2013, male mobile Internet users accounted for 63%[2] of total users; users aged 24 and below accounted for 31%[2]; users with educational background of high school and below accounted for 33%[2]; workers and users working in service industries accounted for 25%[2] in total; and users with monthly income of RMB1,000 and below accounted for 24%[2]. These figures reflected that members of the public represented the main stream of mobile Internet users in 2013. As a result, the main strategies of mobile Internet companies in obtaining user traffic and new users are, firstly, constantly increasing the use frequency of existing users and secondly, through lowering the threshold for using mobile Apps and developing new products to meet users' new needs.

As for the demands of users, in 2013, mobile instant message (IM) had the highest coverage ratio among China's mobile Internet users, followed by entertainment applications such as mobile game, mobile music and mobile video. It can be seen that the focus of demand of China's mobile Internet users continue on four aspects: game, social networking, music and video. It is worth noting that the demand for shopping and maps also increased, which became major applications searched by mobile Internet users in 2013, further signalling the strong trend of penetration of productivity and business Apps in mobile internet. Mobile Internet companies tend to embed shopping and transportation search functions into their entertainment Apps in order to lower the time cost for users to switch to another App and meet the high switching cost of mobile Internet App.

In 2013, significant growth was achieved in all segments of China's mobile Internet. As for mobile games, the most eye-catching segment in the market, there were approximately 310 million[③] mobile game players in the PRC and sales revenue from mobile games amounted to approximately RMB11.24 billion[③], representing a surge of 248.5%[③] and 246.9%[③] respectively compared to 2012. A number of outstanding mobile games each already recorded a monthly turnover exceeding RMB50 million, indicating huge potential for revenue growth. As for mobile music, the number of third-party mobile music client users in the PRC exceed 300 million[①]. As competition in the wireless music market continues to intensify, operators and music client developers are constantly exploring new ways for business growth, which will enable the continuous development of wireless music market. As for mobile video, with the growing number of WIFI hotspots and the Internet traffic discounts provided by operators, there are more favourable factors for users to use online mobile video Apps, which enabled China's mobile video market to commence large-scale commercialisation in 2013, and the Internet traffic of mobile videos, the number of mobile phones on which mobile video Apps are installed and revenue from mobile video showed a trend of accelerating growth. As for mobile education, the significant rise in the number of China's mobile Internet users and smart phone users has brought about huge development opportunities in this sector, and the combination of mobile Internet and traditional education injected new energy into the traditional education industry. Its market size is expected to reach RMB560 million[①] in 2013, and will hopefully exceed RMB1,300 million[①] by 2015 and become an important component of the mobile Internet market.

In view of the foregoing, China's mobile Internet industry achieved remarkable rapid growth in 2013 and became an attractive market in which many enterprises fiercely compete with each other. In the future, Internet connection will be dominated by wireless access, and a consensus is being agreed on that wire Internet is just part of the Internet. In the foreseeable future, China's mobile Internet industry will take the leading role in development with its vast market size and growth potential.

Sources:

① *2013 China Mobile Internet Development Report (2013年中國移動互聯網發展報告), iiMedia Research*

② *Enfodesk 2013 China Mobile Internet Statistics (2013年中國移動互聯網統計報告)*

③ *2013 Report on the China Game Industry (2013年中國遊戲產業報告), Game Publication Committee of China Audio-video and Digital Publishing Association*

* *For identification purpose only*

(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 2013	30 September 2013	30 June 2013	31 March 2013	31 December 2012
PCU	**477,000**	510,000	468,000	445,000	521,000
ACU	**266,000**	270,000	255,000	237,000	287,000

Note: As at 31 December 2013, our online games include Conquer Online, Eudemons Online, Zero Online, Tou Ming Zhuang Online, Heroes of Might and Magic Online, Way of the Five, Tian Yuan, Disney Fantasy Online, Dungeon Keeper™ Online and other games.

The PCU for online game was approximately 477,000 for the three months ended 31 December 2013, representing a decrease of approximately 6.5% from the three months ended 30 September 2013 and representing a decrease of approximately 8.4% from the three months ended 31 December 2012.

We also recorded the ACU for online game of approximately 266,000 for the three months ended 31 December 2013, which represented a slight decrease of approximately 1.5% from the three months ended 30 September 2013 and represented a decrease of approximately 7.3% from the three months ended 31 December 2012.

(3) FINANCIAL PERFORMANCE HIGHLIGHTS

YEAR ENDED 31 DECEMBER 2013

The following table sets forth the comparative figures for the years ended 31 December 2013 and 2012:

	Year ended 31 December	
	2013	2012
		(Restated)
	RMB'000	RMB'000
Continuing operations		
Revenue	**884,518**	825,744
Cost of revenue	**(81,426)**	(54,404)
Gross profit	**803,092**	771,340
Other income and gains	**44,980**	48,909
Selling and marketing expenses	**(106,200)**	(113,555)
Administrative expenses	**(366,143)**	(206,137)
Development costs	**(162,857)**	(146,208)
Other expenses	**(10,046)**	(22,249)
Share of losses of associates	**(16)**	(544)
Operating profit	**202,810**	331,556
Interest income on pledged bank deposit	**4,883**	4,849
Exchange gain on pledged bank deposit and secured bank borrowing	**4,593**	10,807
Net loss on other financial liability	**(5,481)**	(10,679)
Gain on disposal of available-for-sale investment	**5,761**	—
Net gain (loss) on held for trading investments	**8,756**	(61)
Finance costs	**(4,651)**	(4,276)
Profit before taxation	**216,671**	332,196
Taxation	**(50,264)**	(50,356)
Profit for the year from continuing operations	**166,407**	281,840
Discontinued operations		
Profit (loss) for the year from discontinued operations	**6,056,041**	(242,879)
Profit for the year	**6,222,448**	38,961
Profit (loss) for the year attributable to:		
– Owners of the Company	**6,140,776**	39,176
– Non-controlling interests	**81,672**	(215)
	6,222,448	38,961

Revenue

Continuing operations

Online game revenue for the year ended 31 December 2013 was approximately RMB884.5 million, representing an increase of approximately 7.1% as compared to approximately RMB825.7 million for the year ended 31 December 2012.

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

	Year ended 31 December			
	2013		2012	
	RMB'000	**% of online game revenue**	RMB'000	% of online game revenue
PRC	**781,442**	**88.3**	717,048	86.8
Overseas	**103,076**	**11.7**	108,696	13.2
	884,518	**100.0**	825,744	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 2013 was approximately RMB781.4 million, representing an increase of approximately 9.0% over the year ended 31 December 2012.

The online game revenue derived from overseas markets for the year ended 31 December 2013 was approximately RMB103.1 million, representing a decrease of approximately 5.2% over the year ended 31 December 2012.

Discontinued operations

Mobile Internet business revenue for the year ended 31 December 2013 was approximately RMB608.2 million.

Fourth Quarter of 2013

Continuing operations

Revenue

The online game revenue for the fourth quarter of 2013 was approximately RMB229.0 million, representing an increase of approximately 4.4% from the third quarter of 2013 and keeping at a steady level as compared with the same period in 2012.

Cost of revenue

Cost of revenue for the fourth quarter of 2013 was approximately RMB23.1 million, representing an increase of approximately 16.3% from the third quarter of 2013 and an increase of approximately 30.3% over the same period in 2012.

Other income and gains

Other income and gains of approximately RMB14.7 million were recorded for the fourth quarter of 2013, representing an increase of approximately 17.7% from the third quarter of 2013 and a decrease of approximately 14.9% over the same period in 2012.

Selling and marketing expenses

Selling and marketing expenses for the fourth quarter of 2013 were approximately RMB31.7 million, representing an increase of approximately 13.4% from the third quarter of 2013 and an increase of approximately 23.9% over the same period in 2012.

Administrative expenses

Administrative expenses for the fourth quarter of 2013 were approximately RMB140.9 million, representing an increase of approximately 60.8% from the third quarter of 2013 and an increase of approximately 120.9% over the same period in 2012.

Development costs

Development costs for the fourth quarter of 2013 were approximately RMB44.5 million, representing a decrease of approximately 1.9% from the third quarter of 2013 and an increase of approximately 15.5% over the same period in 2012.

Other expenses

Other expenses for the fourth quarter of 2013 were approximately RMB5.3 million, representing an increase of approximately 320.2% from the third quarter of 2013 and an increase of approximately 171.1% over the same period in 2012.

Net loss on other financial liability

Net loss on other financial liability for the fourth quarter of 2013 was approximately RMB3.1 million, representing a decrease of approximately 30.5% over the same period in 2012. No such loss was made for the third quarter of 2013.

Finance costs

Finance costs for the fourth quarter of 2013 were approximately RMB1.0 million, representing an increase of approximately 196.9% from the third quarter of 2013 and a decrease of approximately 50.8% over the same period in 2012.

(Loss) profit for the period from continuing operations

Loss for the fourth quarter of 2013 was approximately RMB2.7 million, whereas, profit for the third quarter of 2013 and the same period in 2012 was approximately RMB37.0 million and RMB78.8 million, respectively.

Discontinued operations

Profit for the period from discontinued operations

The profit before taxation for the fourth quarter of 2013 was approximately RMB6,309.4 million which was the gain on disposal of the mobile Internet business. The taxation of approximately RMB497.4 million represented the enterprise income tax of approximately RMB101.0 million on the capital gain derived from the disposal of Fujian BoRui Websoft Technology Ltd., the domestic PRC subsidiary under the contractual arrangement of 91 Wireless Websoft Limited and its subsidiaries (the "91 Group") and the PRC withholding income tax of approximately RMB396.4 million on the capital gain derived from the disposal of the other subsidiaries of 91 Group effected through the indirect transfer of equity interests in these PRC entities through disposal of 91 Wireless Websoft Limited, which is a PRC non-residence enterprise.

Profit for the fourth quarter of 2013 was approximately RMB5,812.0 million.

Continuing and discontinued operations

Profit (loss) for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the fourth quarter of 2013 was approximately RMB5,807.1 million, representing an increase of approximately 5,872.6% from the third quarter of 2013, whereas, loss for the fourth quarter of 2012 attributable to the owners of the Company was approximately RMB157.0 million.


征服

(4) FINANCIAL REVIEW

Fourth Quarter of 2013 Compared to Third Quarter of 2013

The following table sets forth the comparative figures for the fourth quarter of 2013 and the third quarter of 2013:

	Three months ended	
	31 December 2013 (Unaudited) RMB'000	30 September 2013 (Unaudited) RMB'000
Continuing operations		
Revenue	**229,001**	219,364
Cost of revenue	**(23,070)**	(19,837)
Gross profit	**205,931**	199,527
Other income and gains	**14,687**	12,476
Selling and marketing expenses	**(31,692)**	(27,935)
Administrative expenses	**(140,882)**	(87,611)
Development costs	**(44,469)**	(45,349)
Other expenses	**(5,290)**	(1,259)
Share of profit (losses) of associates	**8**	(41)
Operating (loss) profit	**(1,707)**	49,808
Interest income on pledged bank deposit	**840**	222
Exchange gain (loss) on pledged bank deposit and secured bank borrowing	**4,465**	(1,769)
Net loss on other financial liability	**(3,122)**	–
Gain on disposal of available-for-sale investment	**5,761**	–
Net gain on held for trading investments	**8,756**	–
Finance costs	**(968)**	(326)
Profit before taxation	**14,025**	47,935
Taxation	**(16,757)**	(10,974)
(Loss) profit for the period from continuing operations	**(2,732)**	36,961
Discontinued operations		
Profit for the period from discontinued operations	**5,811,963**	105,586
Profit for the period	**5,809,231**	142,547
Profit for the period attributable to:		
– Owners of the Company	**5,807,145**	97,230
– Non-controlling interests	**2,086**	45,317
	5,809,231	142,547

Continuing operations

Revenue

Our online game revenue for the three months ended 31 December 2013 was approximately RMB229.0 million, representing an increase of approximately 4.4% as compared to approximately RMB219.4 million for the three months ended 30 September 2013.

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

	Three months ended			
	31 December 2013		30 September 2013	
	RMB'000	**% of online game revenue**	RMB'000	% of online game revenue
PRC	**205,178**	**89.6**	195,035	88.9
Overseas	**23,823**	**10.4**	24,329	11.1
	229,001	**100.0**	219,364	100.0

The online game revenue derived from the PRC for the three months ended 31 December 2013 was approximately RMB205.2 million, representing an increase of approximately 5.2% as compared to approximately RMB195.1 million for the three months ended 30 September 2013. The increase in online game revenue derived from the PRC was mainly due to the increase in revenue from Eudemons Online.

The online game revenue derived from overseas markets for the three months ended 31 December 2013 was approximately RMB23.8 million, representing a decrease of approximately 2.1% as compared to approximately RMB24.3 million for the three months ended 30 September 2013.

Cost of revenue

Cost of revenue for the three months ended 31 December 2013 was approximately RMB23.1 million, representing an increase of approximately 16.3% as compared to approximately RMB19.8 million for the three months ended 30 September 2013. The increase was mainly due to the increase in (i) cooperation fees; and (ii) server leasing costs.

Gross profit

Our gross profit for the three months ended 31 December 2013 was approximately RMB205.9 million, representing an increase of approximately 3.2% as compared to approximately RMB199.5 million for the three months ended 30 September 2013.

The gross profit margin for the three months ended 31 December 2013 was approximately 89.9%, which represented a decrease of approximately 1.1% as compared with the three months ended 30 September 2013.

Other income and gains

Other income and gains for the three months ended 31 December 2013 were approximately RMB14.7 million, representing an increase of approximately 17.7% as compared with the three months ended 30 September 2013. The increase in other income and gains was mainly due to offset of the (i) increase in interest income; and (ii) decrease in government grants.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2013 were approximately RMB31.7 million, representing an increase of approximately 13.4% as compared with the three months ended 30 September 2013. The increase in selling and marketing expenses was mainly due to the increase in (i) staff bonus; and (ii) advertising expenses.

Administrative expenses

Administrative expenses increased by approximately 60.8% to approximately RMB140.9 million for the three months ended 31 December 2013 as compared with the three months ended 30 September 2013, which was mainly due to the increase in (i) expenditure for purchase of domain name for business development; (ii) exchange loss on foreign currency; and (iii) depreciation.

Development costs

Development costs slightly decreased by approximately 1.9% to approximately RMB44.5 million for the three months ended 31 December 2013 as compared with the three months ended 30 September 2013.

Other expenses

Other expenses for the three months ended 31 December 2013 were approximately RMB5.3 million, representing an increase of approximately 320.2% as compared with three months ended 30 September 2013. The increase in other expenses was mainly due to the increase in (i) redundancy payment; and (ii) write-off of intangible assets.

Net loss on other financial liability

Net loss on other financial liability was approximately RMB3.1 million for the three months ended 31 December 2013. No such loss on other financial liability was made for the three months ended 30 September 2013.

Finance costs

Finance costs increased by approximately 196.9% to approximately RMB1.0 million for the three months ended 31 December 2013 as compared with the three months ended 30 September 2013, which was due to the increase in days of borrowing.

Taxation

Taxation for the three months ended 31 December 2013 was approximately RMB16.8 million, which raised by approximately 52.7% as compared with the three months ended 30 September 2013.

Continuing and discontinued operations

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 December 2013 was approximately RMB5,807.1 million, representing an increase of approximately 5,872.6% as compared to approximately RMB97.2 million for the three months ended 30 September 2013. The increase was due to the gain on disposal of 91 Group.

Fourth Quarter of 2013 Compared to Fourth Quarter of 2012

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

	Three months ended	
	31 December 2013 (Unaudited) RMB'000	31 December 2012 (Unaudited and restated) RMB'000
Continuing operations		
Revenue	**229,001**	229,104
Cost of revenue	**(23,070)**	(17,711)
Gross profit	**205,931**	211,393
Other income and gains	**14,687**	17,249
Selling and marketing expenses	**(31,692)**	(25,588)
Administrative expenses	**(140,882)**	(63,775)
Development costs	**(44,469)**	(38,510)
Other expenses	**(5,290)**	(1,951)
Share of profit (losses) of associates	**8**	(105)
Operating (loss) profit	**(1,707)**	98,713
Interest income on pledged bank deposit	**840**	2,249
Exchange gain on pledged bank deposit and secured bank borrowing	**4,465**	4,596
Net loss on other financial liability	**(3,122)**	(4,495)
Gain on disposal of available-for-sale investment	**5,761**	–
Net gain (loss) on held for trading investments	**8,756**	(61)
Finance costs	**(968)**	(1,966)
Profit before taxation	**14,025**	99,036
Taxation	**(16,757)**	(20,269)
(Loss) profit for the period from continuing operations	**(2,732)**	78,767
Discontinued operations		
Profit (loss) for the period from discontinued operations	**5,811,963**	(235,949)
Profit (loss) for the period	**5,809,231**	(157,182)
Profit (loss) for the period attributable to:		
– Owners of the Company	**5,807,145**	(157,025)
– Non-controlling interests	**2,086**	(157)
	5,809,231	(157,182)

Continuing operations

Revenue

Our online game revenue for the three months ended 31 December 2013 was approximately RMB229.0 million, keeping at a steady level as compared to approximately RMB229.1 million for the three months ended 31 December 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			
	2013		2012	
	RMB'000	**% of online game revenue**	RMB'000	% of online game revenue
PRC	**205,178**	**89.6**	202,520	88.4
Overseas	**23,823**	**10.4**	26,584	11.6
	229,001	**100.0**	229,104	100.0

The online game revenue derived from the PRC for the three months ended 31 December 2013 was approximately RMB205.2 million, representing an increase of approximately 1.3% as compared to approximately RMB202.5 million for the three months ended 31 December 2012.

The online game revenue derived from overseas markets for the three months ended 31 December 2013 amounted to approximately RMB23.8 million, representing a decrease of approximately 10.4% as compared with that of approximately RMB26.6 million for the three months ended 31 December 2012.

Cost of revenue

Cost of revenue for the three months ended 31 December 2013 increased by approximately 30.3% to approximately RMB23.1 million as compared with that of approximately RMB17.7 million for the three months ended 31 December 2012. The increase was mainly due to the increase in (i) depreciation of servers; and (ii) staff costs.

Gross profit

Our gross profit for the three months ended 31 December 2013 was approximately RMB205.9 million, representing a decrease of approximately 2.6% as compared to approximately RMB211.4 million for the three months ended 31 December 2012.

Gross profit margin for the three months ended 31 December 2013 was approximately 89.9%, which represented a decrease of approximately 2.4% as compared with the three months ended 31 December 2012.

Other income and gains

Other income and gains for the three months ended 31 December 2013 were approximately RMB14.7 million, representing a decrease of approximately 14.9% as compared with the three months ended 31 December 2012. The decrease was mainly due to offset of the (i) decrease in government grants; and (ii) increase in interest income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2013 increased by approximately 23.9% to approximately RMB31.7 million as compared with the three months ended 31 December 2012. The increase in selling and marketing expenses was mainly due to the increase in advertising expenses to promote online games.

Administrative expenses

Administrative expenses increased by approximately 120.9% to approximately RMB140.9 million for the three months ended 31 December 2013 as compared with the three months ended 31 December 2012. The increase in administrative expenses was mainly due to the increase in (i) expenditure for purchase of domain name for business development; (ii) exchange loss on foreign currency; (iii) share-based payments expense for the grant of share awards as incentives in order to retain certain eligible participants for the contribution of the continuing operation and development of the Group; and (iv) depreciation.

Development costs

Development costs increased by approximately 15.5% to approximately RMB44.5 million for the three months ended 31 December 2013 as compared with the three months ended 31 December 2012. The increase in development costs was mainly caused by the increase in staff costs.

Other expenses

Other expenses for the three months ended 31 December 2013 were approximately RMB5.3 million, which represented an increase of approximately 171.1% as compared with the three months ended 31 December 2012. The increase in the amount of other expenses was mainly caused by the increase in (i) redundancy payment; and (ii) write-off of intangible assets.

Net loss on other financial liability

Net loss on other financial liability decreased by approximately 30.5% to approximately RMB3.1 million for the three months ended 31 December 2013 as compared with the three months ended 31 December 2012, which was due to the decrease in fair value loss of foreign currency forward contract.

Finance costs

Finance costs decreased by approximately 50.8% to approximately RMB1.0 million for the three months ended 31 December 2013 as compared with the three months ended 31 December 2012, which was due to the decrease in the amount and interest rate of the bank borrowing.

Taxation

Taxation for the three months ended 31 December 2013 dropped by approximately 17.3% as compared with the three months ended 31 December 2012. The decrease was due to the decrease in withholding tax for dividend declared by a subsidiary.

Continuing and discontinued operations

Profit (loss) for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company for the three months ended 31 December 2013 was approximately RMB5,807.1 million, whereas, loss for the period attributable to the owners of the Company for the three months ended 31 December 2012 was approximately RMB157.0 million.

(5) NON-GAAP FINANCIAL MEASURES

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

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

	Year ended		**Three months ended**		
	31 December 2013 RMB'000	31 December 2012 RMB'000	**31 December 2013 RMB'000**	30 September 2013 RMB'000	31 December 2012 RMB'000
Non-GAAP operating profit	**671,158**	442,713	**11,336**	247,898	138,555
Non-GAAP profit (loss)	**514,844**	367,777	**(5,421)**	193,019	107,643
Non-GAAP profit (loss) attributable to owners of the Company	**433,172**	367,992	**(7,507)**	147,702	107,800

(6) BUSINESS REVIEW

BUSINESS REVIEW

During the year under review, the Group remained committed to maintaining its leading market position in the PRC's online game industry. By adhering to the strategy of strengthening the research and development ("R&D") and operation capabilities of the games to promptly capture market opportunities emerging from the PRC and the overseas online game industries, especially those emerging continuously from the mobile Internet environment, quality online game products were provided to global players.

Meanwhile, the mobile Internet business developed by the Group, in complying with the growth momentum of the mobile Internet industry, also continued to lead within the industry during the year, and laid a stronger financial foundation for the Group's future strategic expansion after the Group's successful disposal of part of the business to Baidu (Hong Kong) Limited ("Baidu HK", a wholly-owned subsidiary of Baidu, Inc.).

In response to intensifying competition in the online game industry, the Group adopts different ways to extend the lifespan of current game products and focus on enriching its product reserves, thereby ensuring its future leading competitive advantage in the industry.

Development of existing MMORPG

During the year under review, the Group continued to offer a wide range of quality MMORPG products to players leveraging its strong self-developed R&D capabilities for games and ever innovating corporate culture.

The Group always strive to timely offer more innovative virtual items and game tasks to players by introducing new expansion packs, and continuously upgrade the contents of all games in operation to improve their popularity and maintain players' interest to the games, hence lengthening the lifespan of existing games and generating stable cash flows for the Group.

During the year under review, the Chinese expansion pack of Eudemons Online (魔域), "Love in a Fallen City"* (傾城之戀), officially started its beta testing in April 2013, and the introduction of "Marriage and Love System"* (婚戀系統) further enhanced the emotional connections between players, and improved various key indicators of the games. Moreover, "Gods Recovery"* (諸神復蘇), another expansion pack of Eudemons Online which began beta testing in October 2013, gained wide popularity among players and showed that with constant upgrade to its content, this typical game has great appeal to players. Other major games of the Group also released their latest expansion packs in response to the demand of players. The expansion pack of Zero Online (機戰) "Advent"* (救世主) was released in May 2013; the expansion pack of Way of the Five (開心) "Catastrophe in Fairland"* (仙界浩劫) was released in July 2013 and the expansion pack of Tou Ming Zhuang Online (投名狀Online) "Ce Ma Tian Xia"* (策馬天下) was released in August 2013. The successive releases of the above new expansion packs had lengthened the lifespan of the games.

* *For identification purpose only*

For expansion of overseas markets, as a pioneer among the PRC's game makers expanding into overseas markets, the Group continued to maintain its leading edges among the PRC's online game operators during the year under review. It operated its online game products in various countries and regions with market potential. Through ongoing upgrades of multilingual expansion packs and focusing on R&D and operation efforts, the Group strengthens its market shares of its key flagship game products in overseas markets, thereby constantly generating revenue from overseas markets and reducing pressure arising from intensifying competition in the domestic online game market.

During the year under review, Conquer Online (征服), the flagship product of the Group in overseas markets, released its two expansion packs for overseas versions "Eastern Assassinator"* (東方刺客) and "Brotherhood: It was the best of times, it was the worst of times"* (江湖:混沌年代) in the first quarter and the third quarter of 2013 respectively with several language versions including English, French, Spanish and Arabian, and strengthened the competitiveness of the game in various countries and regions. In addition, a comprehensive upgrade was made to the overseas versions of Conquer Online (征服) in the fourth quarter of 2013. The upgraded game offered better sense of sight and operating experience which cater to the needs of current overseas players, further enhancing its market shares in overseas markets.

Mobile Internet Business

During the year under review, 91 Group was disposed to Baidu HK. The disposal marks an important milestone in the development of the mobile Internet industry.

Prior to the disposal of 91 Wireless, the mobile Internet business of the Group had always maintained a leading position in the mobile Internet industry by leveraging first mover advantage and continuous innovation. Through efforts on enhancing the platform advantages of "91 Assistant"* (91助手) (formerly known as "91 PC Suite") and HiMarket* (安卓市場), the cumulative download volumes of these two major distribution platforms already exceeded 10 billion in the first quarter of 2013. Meanwhile, the Group has made steady progress in the research and development of smart phone games and related software products, and continued to provide plenty of applications in the vertical field to meet diversifying demands of the vast mobile Internet users, which in turn enabled the user base and the income for the Group's mobile Internet business to maintain rapid growth.

During the year under review, the Group completed the transaction for disposal of 91 Group to Baidu HK in October 2013. The Group believes that, in the long run, Baidu HK and 91 Wireless will complement each other through business and strategic cooperation, which helps to enhance the position of 91 Wireless in the mobile Internet market in the future. Furthermore, leveraging the financial resources obtained from this transaction together with the experience accumulated in developing online games and high-growth projects, the Group will continue to strengthen its leading position in the online game and mobile game markets.

After the disposal of 91 Wireless, the Group shifted the strategic focus of its mobile Internet business to the development and operation of mobile Internet games, and achieved significant progress during the year under review. Several typical mobile games were launched, such as Crazy Tribe* (瘋狂部落), a mobile game based on the background of primitive society with lovely and artistic style; Evil Spirits* (妖界), an anime style cultivated strategic game integrating leisure strategy,

* *For identification purpose only*

instantaneous fighting and social community with Chinese myths as background; COS* (英魂之刃), the first 3D genex MOBA type of online game developed by the Company's self-developed S3 engines and integrating various themes such as science fiction, fantasy and mystique themes; and The Pirate (大海盜), a role play mobile game. Besides, many mobile game products were opened for internal and beta testing, including the role play game, Micro Western Odyssey* (微西遊); the strategic role play game, Most Runescape* (最江湖); the action-based role play game, Age of Egmont* (獵龍戰記); the 2.5D role play game, Celestial Saga* (戰蒼穹), which is developed by C3 game engine and the Fatal Fighter* (全球快打), a side scrolling fighting game with alien theme. We believe these games can enable sufficient product reserve for the continuous launch of masterpiece games in the Group.

During the process of expansion in mobile game market, the Group made reference to previous successful experiences and fully utilized the R&D and operation advantages accumulated over the years in the MMORPG field. To extend the Group's flagship game, Eudemons Online's (魔域) branding and clustering effects of players on mobile terminals, the mobile game version of Eudemons Online (魔域), Eudemons Online Pocket Version* (魔域口袋版), was opened for internal testing during the year under review, and is scheduled to launch in 2014. It is believed that this game version will gain potential growth in the mobile game field via its wide user base and popularity accumulated in the MMORPG market. To spread the lifespan of mobile game products, the Group successively launched upgraded versions of cross-platform mobile games such as Warring States* (戰國天下), Chaos Hero* (亂世封神) and Legend of Emperors* (帝王傳) to promote detailed refinement of games and attract more players. Several expansion packs of the mobile game Celestial Saga* (戰蒼穹), including The Challenge* (誰與爭鋒), were launched and offered timely upgrades to maintain players' interest. Also, Eastern Assassinator* (東方刺客), a new expansion pack of the iPad version of Conquer Online (征服), was released in May 2013.

Through the extension of the Group's channel and operation edges in the overseas game markets, the Group continued to promote its mobile game products in overseas markets. During the year under review, the Korean version of Warring States* (戰國天下) was officially launched in June 2013, attracting a large number of Korean players and successfully gaining a foothold in the Korean market. The traditional Chinese version of the first ARPG mobile online game Crazy Tribe* (瘋狂部落) was officially launched in Hong Kong, Macau and Taiwan markets in October 2013 and ranked first among free game applications of the traditional Chinese App Store and third on popular free iPhone App on its first day of launch. The mobile version of Conquer Online (征服) in English, compatible with the iPad version, and The Pirate* (大海盜) in Arabic were launched in the fourth quarter of 2013. In addition, the iOS version of Evil Spirits* (妖界) was launched in the Vietnamese market in the fourth quarter of 2013.

The Group believes that, by virtue of its years of experiences in R&D and market expansion in the field of interactive games, the Group's mobile game business is expected to achieve remarkable results.

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

* *For identification purpose only*

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

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

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

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

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

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

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

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

The Merger Agreement

Pursuant to the terms and subject to the conditions of the Merger Agreement, Merger Sub would merge with and into 91 Wireless (the "Merger") at the time on which the Merger became effective as set out in the plan of merger as appended in the Merger Agreement in accordance with the Companies Law of the Cayman Islands (the "Effective Time"), with 91 Wireless surviving the Merger and becoming a wholly owned subsidiary of Baidu HK as a result of the Merger. The consideration for the Merger is USD1,847.94 million (equivalent to approximately HKD14,336.09 million).

As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company. Special dividend of HKD7.77 per share was paid to the shareholders of the Company on 6 November 2013.

For details of the very substantial disposal, the Merger Agreement and the transactions contemplated thereunder, please refer to the Company's announcements dated 15 July 2013, 16 August 2013, 1 October 2013, 3 October 2013 and 11 October 2013.

Due to a very substantial disposal of 91 Wireless by way of merger and connected transaction in 2013, NetDragon (Fujian) achieved a gain and the net asset value as at 31 December 2013 amounted to RMB305,183,000 which exceeded the maximum net asset value established at 31 December 2006 of RMB15,000,000 as set out in the waiver granted by the Stock Exchange of Hong Kong Limited in 2008 (the "Waiver"). The Company has made enquires and communicated with the Stock Exchange of Hong Kong Limited before 31 December 2013. NetDragon (Fujian) and TQ Digital entered into a donation agreement on 21 March 2014. As a result of the donation, the net asset value of NetDragon (Fujian) has been restored below the level of RMB15,000,000 as required in the Waiver and the disposal profit of NetDragon (Fujian) has been transferred to TQ Digital.

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

As stated in the Company's announcement dated 15 July 2013 and 16 August 2013, it is contemplated if the disposal of the 91 Wireless Group takes place, the proposed spin-off (the "Proposed Spin-off") and the proposed listing of 91 Wireless on the GEM (the "Proposed Listing") will not be effective. As the closing of the Merger Agreement took place on 1 October 2013, the application for the Proposed Spin-off and the Proposed Listing have ceased.

Expansion of business lines

The completion of the disposal transaction of the subsidiary, 91 Wireless, symbolized the Group's entry into another exciting stage. Apart from the payment of a special dividend of HKD7.77 per share as reward to the shareholders for their long-term support, the balance of the net proceeds from the disposal will provide strong financial support for the Group's ongoing expansion into strategic emerging businesses, thereby laying a solid foundation for the development of the Group's new projects.

Online education project

Along with China's rapid social and economic development and the popularity of information technologies such as mobile Internet, the Group has accelerated our research for business model and accumulated resources for the online education segment during the year under review.

The Group progressively established the general framework for online education in four project fields during the year under review. Being the foundation of the Group's education project, "Open Education Cloud Platform"* (開放教育雲平台) is a large-scale education cloud platform covering a back-end fundamental support platform, a front-end application platform and faces numerous terminals. The construction of this platform is currently under steady progress, and the Group is continuously investing resources to enrich the contents of this platform. On top of this platform, the Group is constructing a micro research base to develop advanced education solutions for various segments such as secondary and higher vocational education, universities, non-degree, lifetime education and K12. In the future, education cloud platform is expected to cover the whole lifelong education system, ranging from kindergarten to university for the aged.

* *For identification purpose only*

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

"The Haixi Animation Creativity City" is a project initiated by Changle Western Taiwan Straits Creative Valley (長樂海西創意谷) with planning and construction carried out by the Group. It is a key project under construction in Fujian province in 2013, and also a key project for the cultural creativity industry in the Linkonggang Economic Zone of Fuzhou City. The Project covers a more integrated industrial chain of animation creativity from research and development in animation, exchange, animation derivatives to elite education. During the year under review, the progress of the three phases was as follows:

I The first phase is "Phase 1 of the Haixi Animation Creativity City" and located on a parcel of land with a site area of 247 mu. It is occupied by the Group for exchange in research and development, and quality development. Currently it has been constructed into several main buildings such as the Group's office building and Pentagonal Building* (五角大樓), with a gross floor area of approximately 20,000 square meters and an investment amount exceeding RMB200 million.

II The second phase is "Phase 2 of The Haixi Animation Creativity City" and located on a parcel of land with a site area of 297 mu. It is used by the Group as core animation research center with a gross floor area of approximately 250,000 square meters and a total investment amount exceeding RMB600 million, of which the Heavenly Building* (天晴樓), a landmark building was completed in August 2011 and other buildings are under tight construction.

III The third phase is "Phase 3 of The Haixi Animation Creativity City" and located on a parcel of land with a site area of 635 mu, is a project for game terminal and animation application. The site, which will become the Group's research and development center for future mobile intelligent terminals. The Group is processing the land supply procedure.

Furthermore, the Group places great emphasis on the development of education. It is planning to construct of the new Changle campus for Fuzhou Software Technology Vocational College, which has a student enrolment of approximately 8,000 and occupies an area of 536 mu. Currently, the project has completed planning, design and site selection, and when put into use, the project will form an industry cluster effect together with the three projects in the park by the way of "learning supported by production, research facilitated by production, learning combined with production" to boost the emergence and development of Haixi animation creation industry. The construction of the Changle project will help form a complete high-tech industry cluster and animation industry chain for "technological research and development, application and production" in the area, making it a new town with the most sophisticated technology and the most ecology-friendly industry, a creative new town with the greatest potential, and a new innovative culture zone along the south-eastern coast in China.

* *For identification purpose only*

Enhancement of R&D capabilities

The Group places emphasis on its self-developed R&D capabilities, and believes that they have driven the success of products of MMORPG, mobile Internet games, online education and cloud offices. During the year under review, the Group focus on maintaining its core competitiveness by enhancing its R&D capabilities. As of 31 December 2013, the Group's total staff headcount was 2,268, of which 1,230 were members of the research and development team, and a significant portion of which were industry elites in the domestic fields of programming design, design and graphic art.

Corporate Milestones and Awards for 2013

Year 2013	Corporate Milestones/Recognitions	Product Milestones/Awards
January	• Fujian NetDragon Websoft Co., Ltd. 「福建網龍網絡信息技術有限公司」("NetDragon (Fujian)")was honoured as "2012 Top 10 Chinese Branded Game Enterprises for Top 10 Games"* 「遊戲十強之2012年度中國十大品牌遊戲企業稱號」 by the Publishers Association of China* 「中國出版協會」 • NetDragon (Fujian) was awarded "Fuzhou Famous Trademark Plaque"*「福州市知名商標牌匾」by Administration for Industry and Commerce of Fuzhou* 「福州市工商行政管理局」and Fuzhou Trademark Association* 「福州市商標協會」 • Fujian TQ Digital Inc.「福建天晴數碼有限公司」("TQ Digital") was honoured as "2012 Top 10 Chinese Overseas Development Game Enterprises for Top 10 Games"*「遊戲十強之2012年度中國十大海外拓展遊戲企業稱號」by the Publishers Association of China* 「中國出版協會」	

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Year 2013	Corporate Milestones/Recognitions	Product Milestones/Awards
February	• TQ Digital was honoured as "Top 50 Most Dynamic Service Trade Enterprises"* 「最具活力服務貿易企業50強稱號」 by International Business Daily* 「國際商報社」 • NetDragon (Fujian) was honoured as "Top 10 Cultural Enterprises in Fujian Province"* 「福建省文化企業十強稱號」by the Fujian Province Cultural Reform and Development Work Leading Group*「福建省文化改革發展工作領導小組」	
March	• NetDragon (Fujian) was awarded the "Chinese Animation and Game Industry - 2012 Outstanding Entrepreneur Award"* 「中國動漫遊戲行業2012年度優秀企業獎」by China Game Industry Annual Conference*「中國遊戲行業年會」	• Eduemons Online 「魔域」was awarded the "2012 Chinese Animation and Game Industry Goldfinger Award"* 「2012年度中國動漫遊戲行業金手指獎」 by China Game Industry Annual Conference* 「中國遊戲行業年會」 • "Age of Egmont"* 「獵龍戰記」 (previously named as Age of Emblem* 「紋章物語」) was awarded the "2012 Chinese Animation and Game Industry Goldfinger Award"* 「2012年度中國動漫遊戲行業金手指獎」 by China Game Industry Annual Conference* 「中國遊戲行業年會」
July		• "Baby and Children's book series of Interactive Audio Readers"* 「《寶寶童書系列互動有聲讀物》」was awarded 2012's "Creative Dynamic Award"*「原創動力獎」by SAPPRFT*(新聞出版總署)

* *For identification purpose only*

Year 2013	Corporate Milestones/Recognitions	Product Milestones/Awards
October	• NetDragon (Fujian) was awarded the "2013 Chinese Network Culture Festival Online Game Original Award"*「2013中國網絡文化盛典網絡遊戲原創獎」by China International Network Culture Expo Organizing Committee *「中國國際網絡文化博覽會組委會」	• "Age of Egmont"*「獵龍戰記」(previously named as Age of Emblem*「紋章物語」) was awarded the "2013 Baoding Award for Best Original Mobile Platform Online Game Award"*「2013年度寶鼎獎最佳原創移動平台網絡遊戲獎」by China International Network Culture Expo *「中國國際網絡文化博覽會」
December	• NetDragon (Fujian) was granted the "Hope Projects in Fujian Province with 20 Years of Special Contribution Award"*「福建省希望工程20年特別貢獻獎」by the "Office of Hope Projects in Fujian Province"*「福建省希望工程辦公室」 • TQ Digital was honoured as "2013 Top 10 Chinese Overseas Development Game Enterprises for 2013 Chinese Top 10 Games" *「2013年度中國遊戲十強之2013年度中國十大海外拓展遊戲企業稱號」by China Game Industry Annual Conference*「中國遊戲行業年會」	

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

* *For identification purpose only*

(7) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2013, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB4,463.0 million (31 December 2012: RMB1,731.3 million), out of which approximately RMB107.4 million (31 December 2012: RMB194.4 million) has been pledged to bank to secure bank borrowing.

As at 31 December 2013, the Group had net current assets of approximately RMB3,776.0 million as compared with approximately RMB1,369.3 million as at 31 December 2012.

(8) GEARING RATIO

The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.02 (31 December 2012: 0.13). As at 31 December 2013, total bank borrowing of the Group amounted to approximately RMB104.7 million (31 December 2012: RMB183.6 million) was fixed rate loan.

(9) CAPITAL STRUCTURE

As at 31 December 2013, the Group's total equity amounted to approximately RMB4,622.9 million (2012: RMB1,416.0 million).

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

(11) CREDIT RISK (Cont'd)

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, amount due to a related company, amount due to an associate and secured bank borrowing) 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 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. Based on the assessment of the management, liquidity risk encountered by the Group is minimal.

(13) PROSPECTS AND OUTLOOK

Looking forward, the Group will continue to maintain its strong game R&D and operation capabilities by training and recruiting outstanding talents in the industry. While constantly developing new products to expand its product lines, the Group will also extend the lifecycle of existing products by means such as updating the contents of its operating games in due course and offering differentiated new expansion packs, so that the revenue from our game operation will continue to grow steadily. In the meantime, the Group will also continue to expand into emerging overseas markets which have strong market potential.

The Group will increase its investment in mobile Internet games, focus on transplanting its experience in the in-house R&D and operation of online games into the mobile game sector, and constantly launch products that cater to the preferences of mobile Internet users by actively and accurately understanding their needs, so as to create a new breakthrough in this thriving sector.

Meanwhile, the Group will take full advantage of its strong capital strength, firmly seize the tremendous strategic opportunities arising from new sectors such as online education and cloud office to ensure greater success of the Group in future.

MMORPGS

Tiger Knight* (虎豹騎)

This is a new type of action and competition war game developed by the Group. Based on the Three Kingdom theme which is well known to and generally enjoyed by both domestic and foreign players, this product supports massive multi-player synchronized online playing. This game is currently in the R&D stage and is planned to start testing in the first half of 2014.

Mobile Internet Games

Micro Western Odyssey* (微西遊)

This is a new generation strategic game which integrates the features of the two categories of card games and horizontal-version round-based games, and combines the Diablo style with the brand-new Journey to the West Story. Since top designers in the industry were invited to participate in the artistic production and renowned fan fiction writers were asked to write the story, it will interpret the most stylish and unique story of Journey to the West for the users. Meanwhile, marvelous character design, changing scenes and dazzling playing skills will show players unprecedented aesthetics which cannot be seen in strategy card games. This game is scheduled for internal testing in April 2014.

Most Runescape* (最江湖)

This is a gorgeous and realistic swordsman game using self-developed engine and the retina technology. This product adopts all-gesture leisure controlling and is complemented by the micro-film-like knight-ervant adventure stories, where all heroic figures created by various famous writers of knight-errant stories appear in the game to show a majestic mobile knight-errant world to players. This game will be opened for iOS version internal testing in January 2014.

Age of Egmont Pocket Version* (獵龍戰記口袋版)

As the first ARPG in fantasy style developed by the Group, this product also supports experiencing on PC, iOS and Android devices. The unique mini character design and the classic Japanese animation scene provide this product with a fresh style. Various magic items featuring Japanese characteristics such as coats-of-arms, cards and cute pets are specially included in the game to enable players to experience different collection pleasures. This game will be opened for new version testing in March 2014 and is expected to be launched in the second quarter of 2014.

* *For identification purpose only*

Eudemons Online Pocket Version (魔域口袋版)*

As the mobile game version of Eudemons Online, which is a masterpiece of the Group in the MMORPG sector, Eudemons Online Pocket Version* is a free-for-lifetime mobile game whose core elements include beast breeding and group fighting. Besides maintaining the typical playing methods of online games, this product has conducted all-round optimization to meet the needs of mobile phone users for gaming experience and incorporated the virtual joystick feature which is more suitable for smart phones such as iOS and Android, and these will greatly meet the needs of mobile game players. This game is scheduled for testing in April 2014 and will be officially launched to the market in the third quarter of 2014.

Celestial Saga (戰蒼穹)*

This is a 2.5D action role play mobile game developed by the core game R&D team of the Group using its best effort. This game adopts the cutting-edge retina picture technology, which resulted in extremely beautiful and realistic pictures and extreme fineness. Meanwhile, the smooth virtual joystick control and pleasant ARPG fighting scene are expected to provide players with a series of extreme mobile gaming experiences. This game is currently in the internal testing phase and is scheduled for official beta testing in the second quarter of 2014.

Online Education Project

In view of the fact that the PRC online education market is entering a period of high-speed growth and has tremendous market potential, the Group will further enhance the strategic position of online education projects in the Group and increase its investment in this field. The Group will continue to expand the education contents resources available on the "Open Education Cloud Platform"* (開放教育雲平台) which serves as the project basis and accelerate the development of large-size education cloud platforms which are oriented to various terminals such as PC, smart phone and tablet computer by various means including purchase and cooperative import.

Cooperation to explore and conduct business in the online education and related application market

On 30 October 2013, NetDragon BVI, Foxteq Holdings Inc. ("Foxteq"), an indirect wholly-owned subsidiary of Hon Hai Precision Industry Co., Ltd. and Vision Knight Capital (China) Fund I, L.P. ("Vision Knight Capital") entered into a memorandum of understanding ("MOU") for the purpose of exploring and conducting business in the online education and related application market.

* *For identification purpose only*

On 24 January 2014, NetDragon BVI, entered into an agreement with Foxteq and Vision Knight Capital, pursuant to which the parties agree to collaborate in the exploration and business operation in the online education and related application market through the establishment of WOFE (a wholly foreign owned enterprise to be established in the PRC) and the structure contracts arrangement ("Agreement").

For further details of the MOU and the Agreement, please refer to the Company's announcements dated 30 October 2013 and 24 January 2014.

Conclusion

The Group is of the opinion that, the online game industry in the PRC has experienced a rapid growth stage for years, and is entering a mature stage with intensifying competition. Therefore, the production capacity and market of the online game industry are approaching saturation, and the industry growth rate will remain stable. Therefore, the market concentration is expected to further shift to those outstanding online game enterprises, including the Group, with strong R&D and operational capabilities and successful track record. In this regard, the Group will further put more efforts on the selection, cultivation, utilization and retention of talents with various expertise, optimize the process for the establishment, R&D and operation of game projects and continue to strengthen core competiveness. The Group will also upgrade the existing game products in a timely manner and launch more quality products that cater the needs of players to enhance its attractiveness to players.

The Group has fully switched its strategic focus on the mobile Internet business to the development and operation of mobile Internet games, and thus launched a series of highly acclaimed products. The Group is of the opinion that with continued explosive growth in the mobile Internet field in China, the Group intend to fully capitalize on our research and development and operating experience accumulated in our online game business and the advantages in terms of channels and operations established in the overseas game market over the years, thus enabling the Group to achieve remarkable performance in this strategic direction.

In addition, with the Group's growing business development, its efforts in projects such as online education and "The Haixi Animation Creativity City" will enlarge and are expected to become new performance growth drivers for the Group, ensuring the Group to achieve more splendid success in the future.

Other Events

The Group has implemented talent optimization since 2009. We achieved expected results in respect of simplifying and improving team work efficiency, reducing labor costs, strengthening team cohesiveness and enhancing staff competitiveness. In the future, the Group will continue to conduct necessary talent optimization in due course to maintain growth momentum. In terms of performance results, the talent optimization project also continue to bring down total labor costs and further boost staff morale and their sense of responsibility.

In order to support enhancing efficiency in game development and promotion, the Group continued to improve the integrated operation model, enhance operation efficiency, and optimize business management system, time management system, bug management system, production process system and game version management system in relation to project management and daily office administrative procedures.

CORPORATE CULTURE

The corporate culture of NetDragon has been upgrading with the development of the Company. In order to support the target of transforming to a design company during the year, the Company has engaged an external consultant to adjust and rationalize its corporate culture. Through a series of management discussion, it facilitated the continuous penetration to a consensus which will contribute to on-going growth drive and create a much stronger and brighter future for NetDragon.

CORPORATE SOCIAL RESPONSIBILITIES

Youth Business China (Fujian, Haixi)

Youth Business China (Fujian, Haixi) ("Haixi Youth Business") has assisted nearly 2,000 youths to start their own businesses and created over 10,000 employment positions since its establishment, of which over 600 typical enterprises received business start-up funds and one-to-one mentorship programs. It absorbed over 1,800 business mentors and conducted 410 business training sessions with more than 90,000 participants in total. It successfully organized over 100 sessions of mentor club activities and youth club activities, which provided diversified assistance and support to entrepreneurs in all aspects.

2013 is the cultural year for Haixi Youth Business which it is committed to building a growth circumstance for entrepreneurs with the concept of "happy entrepreneurship to achieve harmonious win-win" and reflect the value of "people-oriented, self-disciplined, innovative and win-win". In order to provide better service for the youth, during the year, we followed the 100 principles in respect of quantity proposed by YBC National Office and more focus on quality of support, and made great efforts in club activities and business network operations. Throughout the year, we raised funds in the amount of approximately RMB7.2 million (excluding the ratio of YBC National Office), supported over 140 youths further who intended to start up their businesses, organized many sessions of youth and mentor club activities and conducted forums and business training classes. Through media reportings and cooperation to spread entrepreneurship and public spirit, millions of people became aware about entrepreneurship. Besides, offices and service centres were established throughout the province with volunteer mentors recruited to provide volunteer services and facilitate communication among mentors. During the year under review, a specialised entrepreneurial column was set up jointly with fj.qq.com (騰訊大閩網), which was promoted to front page of the website.

Being the chairman institution of Haixi Youth Business, NetDragon has donated business formation support funds of almost RMB10.0 million in aggregate and promoted more corporations and individuals to support by various means, such as corporations offering their own products and services, site and software support. During the year under review, Resources Raising Committee was established to drive the forces from core mentors to develop and raise resources.

During the year under review, YBC Ordinance* (YBC典章) was published, concluding management measures, rules and of the tips, while ISO9001 quality control system was introduced on the basis to sort out all work procedures and systems systematically. Besides, Haixi Youth Business passed ISO annual inspection and became the first public welfare fund in the PRC that has passed ISO9001 certification. At the same time, Haixi Youth Business tracked and supported the youth, who have passed the review, for three years. In addition to satisfaction of the requirements of YBC Ordinance*, much innovative exploration was made on entrepreneurial club activities and entrepreneurial business websites, which enabled closer connection with local entrepreneurial youth. Haixi Youth Business emphasized the coordination of activities within the country and around the world, ensure learning and growth of entrepreneurial youth in the locality while providing them with exchange opportunities with the youth in other regions, such as Chinese and Singaporean youth entrepreneurial exchange programme in 2013. Also, Haixi Youth Business joined hands with Communist Youth League to establish a youth entrepreneurial base through which free sites, policies and other resources support were provided for the youth to start a business.

* *For identification purpose only*

STAFF RELATIONSHIP AND WELFARE

HUMAN RESOURCES

The Group has its overall staff headcount to a total of 2,268 as at 31 December 2013. During the year under review, the Group has achieved significant improvement in human resources management.

1. Based on the needs of business development, during the year under review, the Company has completed reviewing the organizational adjustments of various departments, newly established entities and departments, which effectively ensures the matching of organization setting and business development among the Company and ensures the smooth business operations of the Group. Meanwhile, with the continuous expansion and development of the Company, it reviewed the recruitment for nearly 800 employees.

2. The Company improved employment qualifications management, including the completion of the establishment of an assessment officer database which sets out the scope of assessment for assessment officers, and when combined with the work quality of assessment officers for the selection of outstanding assessment officers, it helped to improve the quality of assessment. The Management Rules for Staff Promotion* (員工晉升管理辦法) have been revised to better support the cultivation and selection of talents. During the year under review, over 500 employees were reviewed and promoted, representing a one-time passing rate of 93.58%, which had effectively motivated employees and supported their further development. In line with the Company's strategic plan for talent upgrade, it established an implementation plan for the Position Qualification System Optimization* (任職資格體系優化專案) which is scheduled to be implemented in 2014.

3. In respect of management of staff career developments, more flexibility and support were provided. In order to provide employees with a clear route in career development and facilitate staff learning and development, the Company designed a staff development demo map, and revised the Management Rules for Abnormal Deployment of Staff* (員工異動管理辦法) to promote the flow of talents within the Company and provide wider career development for employees.

4. The Company carried out the Senior Management Leadership Assessment Project* (高管領導力測評項目) by appointing external third parties to conduct a series of assessments on the Company's senior management, in order to help the Company better achieve its strategic targets and create values.

* *For identification purpose only*

5. Relying on day-to-day recruitment, the Company established a pool of high caliber candidates and conducted remuneration researches for various positions in view of the development needs of business departments to provide important information support to the adjustment of remuneration management system and reserve of core talents of the Company.

6. In line with development strategies of the Company, school-oriented recruitments in Fujian province and recruitment talks in famous universities outside the province were conducted where over 3,000 students participated, which effectively promoted employer brand image. Based on regular school recruitment campaigns, the Company invited postgraduates and doctoral students to join and build a technical exchange group with a reserve of over 100 postgraduates, of which 20 were recommended and employed into the R&D team of the Company to conduct subject research.

7. As for performance management, the Group continuously carried out PDCA (Plan, Do, Check, Action) by adhering to "business target-oriented" principle. The Group also promoted optimisation of appraisal benchmarks in each department and implemented disintegration by tier of work targets from company level to individual level, 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.

8. On the basis of continuously driving the "Golden Handshake Plan" and project incentive in 2013, the Company continued to improve the existing remuneration system to enhance its competitiveness in the remuneration market. During the year under review, a number of remuneration plans/systems were designed and implemented to improve the Group's remuneration system, and the Company had participated in the remuneration survey conducted by several renowned consultant companies in the PRC, providing effective information support to a certain extent for adjusting the overall remuneration structure of the Company.

9. The Company improved the game star and flexible welfare system, and adjusted the welfare strategy. Meanwhile, the Company formulated Management Measures for the 91 Charity Foundation* (91愛心基金管理辦法) 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 ("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 2013

During the year under review, the Company conducted a total of more than 160 training sessions for employees of the Group, with over 3,800 participants in total. Apart from management training, skills training and development training in the existing business, the business model has changed from training course oriented to certification program, in order to drive and develop corporate culture promotion and development.

In 2013, the Company focused on launching certification examination programme with the theme "items that we should know and understand", such as safety technology certification exam and Game Design Aptitude certification exam. Staff within the Group may participate in the programmes on a voluntary enrolling basis.

In respect of application of advanced management, the Company further developed the management training course system and built high-quality training courses by introducing the method of Work Task Analysis* (工作任務分析). The Company carried out independent research on management certification model to evaluate learners' management ability and potential by way of work target orientation and management scenario simulation, and provided more effective evaluation report for management training and administration.

In respect of technological training, NetDragon University offered many new training projects. Design Elite Practice Bootcamp* (設計菁英實戰訓練營), one of the new projects, integrated actual programs responsible by colleagues with the learning contents of the training sessions effectively, such that colleagues may apply what they have learnt to enhance the effectiveness of the training.

In respect of fostering in-depth collaboration among teams, the Company carried out regular extension training on teamwork according to the Group's strategies and demands of departments, and customized training on in-depth experience were provided to better cultivate the teamwork spirit.

In respect of E-learning, the online learning platform, its application is promoted within the Group so as to develop a good online self-learning atmosphere within the Group.

* *For identification purpose only*

RESULTS EXPECTED TO ACHIEVE IN 2014

In 2014, NetDragon University will promote design bootcamp programmes to satisfy the strategic needs of the Group. More systematic management appraisal and standards will be established in personnel management to nurture more outstanding management personnel for the Company. On the other hand, NetDragon University will conduct research on education skills as well as methodology, education theory and development trend, and promote the methodology. In addition, technological training will orient on design-based training courses to increase training quality and promote the development of design talents of the Company. Experience training will develop further based on original training projects, large-scale development activities similar to orientation activities will be organized to facilitate in-depth communication and cooperation between project teammates. The online learning platform of E-learning will continue to improve its functions, with the expectation that the online learning atmosphere and effectiveness will be further increased and higher operational efficiency of training will be achieved.

WORKING ENVIRONMENT

We provide all our staff with a friendly and enjoyable working environment which is spacious and offers diversified staff facilities, including a 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 42, 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 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 Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("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. Mr. Liu received the Management Talent Award* (「領軍人物獎」) in June 2011 and was awarded as the Entrepreneur of the Year in Entrepreneur Conference of CYZONE* (「創業邦年會年度創業人物」) in November 2013. Mr. Liu is also a director of NetDragon Websoft (Hong Kong) Limited ("NetDragon (Hong Kong)") and NetDragon Websoft Inc. ("NetDragon (BVI)"), and is appointed as director of Baidu, Inc., a public listed company in Nasdaq, in October 2013. Mr. Liu is a brother of Liu Luyuan and a cousin of Zheng Hui.

* *For identification purpose only*

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 45, 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, 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 Tianquan Education Technology Limited* (福建天泉教育科技有限公司) since 2012, the legal representative and chairman of Fuzhou Tianmiao Network Technology Limited* (福州天渺網絡科技有限公司) and the legal representative and Director of Fujian Huayu Education Technology Limited* (formerly known as "Fujian Best Assistant Education Technology Limited"*) (福建華漁教育科技有限公司,前稱「福建貝森特教育科技有限公司」). He is also a member of the first Fujian Cultural Enterprises Association* (福建省文化企業協會) and Secretary General of Fuzhou Association for Service and Trade Development Promotion* (福州市服務貿易發展促進協會). 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*

DIRECTORS AND SENIOR MANAGEMENT

Chen Hongzhan, aged 41, 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 manager 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.

NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 51, 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 1986 from Tsinghua University. He is currently the general partner of IDG Capital Partners. Before he took up the post, he was the vice president of IDG Technology Venture Investment Inc., 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chao Guowei, Charles, aged 48, 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 Chief Executive Officer and Chairman of the Board 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 Chief Executive Officer and Chairman of the Board. 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 48, 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, Newton Resources Ltd, Walker Group Holdings Ltd, Tenfu (Cayman) Holdings Co. Ltd, Landsea Green Properties Co., Ltd., China BlueChemical Limited, Far East Holdings International Limited and Futong Technology Development Holdings Limited, the shares of which are listed on the Stock Exchange. Mr. Lee was also an independent non-executive director of New Universe International Group Ltd between June 2010 and July 2012. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

Liu Sai Keung, Thomas, aged 41, Independent non-executive Director

Mr. Liu is the Chief Operation Officer 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 Angeles, 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

Yam Kwok Hei, Benjamin, aged 38, Chief Financial Officer and Qualified Accountant

Mr. Yam joined NetDragon as our Chief Financial Officer in October 2013 and is responsible for financial management, corporate finance and investor relations. Mr. Yam has over 15 years of professional experience in financial services spanning private equity, corporate finance and auditing. Prior to joining NetDragon, he was a Partner at a Hong Kong-based venture capital firm, and before that, he worked for over 7 years at SAIF Partners, a pre-eminent Asian private equity firm managing over USD4 billion, where he last served as Senior Vice President and was actively involved in leading the closing and exit of numerous investment transactions in Greater China, as well as serving as an active board member of several portfolio companies. In his early career, Mr. Yam also has professional experience in auditing at Arthur Andersen. Mr. Yam holds a Bachelor of Commerce degree from the University of British Columbia with major in accounting. He is a Chartered Accountant, an associate member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst charterholder.

DIRECTORS AND SENIOR MANAGEMENT

Wu Jialiang, aged 37, 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 14 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 researches, 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.

Lau Hak Kin, Wood, aged 36, Financial Controller, Qualified Accountant and Head of Compliance and Corporate Affairs

Mr. Lau joined the NetDragon as Financial Controller and Head of Compliance and Corporate Affairs in February 2014. Mr. Lau holds a bachelor's degree in business administration, majoring in accountancy, from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a CFA charterholder. He has over 10 years of experience in financial management, risk management, accounting, taxation and auditing and previously worked for PricewaterhouseCoopers and Asian Citrus Holdings Limited before joining the Company.

Yu Biao, aged 44, Vice-president of NetDragon, Chairman and CEO of Fujian Huayu (福建華漁), Chairman of Fuzhou Software Technology Vocational College

After joining NetDragon in September 2009, Mr. Yu has been responsible for the planning, consolidation and operation of the education business of NetDragon in the PRC, and the development of the online education business overseas. He was a director of Xiamen Digital Engine Network Co., Ltd. (廈門數位引擎網絡有限公司) in 2000. He was Assistant to the Dean of Fuzhou-Napier College (福州大學中英Napier學院) from 2000 to 2007, Managing Director of Fuzhou Bojie Education Consultation Co., Ltd. (福州博傑教育諮詢有限公司) in February 2004, Deputy Director of the Chinese and Australian Class Project of Fuzhou No.8 Secondary School and the Chief Representative of the Australian school in the PRC in June 2006 and Managing Director of Fuzhou Bojie Child Education Technology Co., Ltd. (福州博傑兒童教育科技有限公司) from 2008 to 2009. Mr. Yu graduated from the Department of Light Industries of Fuzhou University in 1992, majoring in food engineering. He has over 10 years of experience in education management.

Lin, Chiachuan, Peter, aged 43, Chief Designer

After joining NetDragon in April 2013, Mr. Lin has been responsible for brand, hardware development and games design in the PRC, and games development and operations in overseas. He is currently responsible for our game development and management matters. In his early career, he was the Senior Manager at BenQ Corp. from 2004 to 2006. From 2006 to 2010, he became the Chief Designer of BenQ Corp. Mr. Lin was appointed as Creative Director of Samsung Design China of Samsung Electronics in 2012. Mr. Lin graduated with a MFA degree from Rochester Institute of Technology, NY, USA. He has over 15 years of experience in brand product design development and management.

COMPANY SECRETARY

Cheung Yuet Fan, aged 48, Company Secretary and one of the authorised representatives of the Company

Ms. Cheung is a senior manager of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. She is a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in United Kingdom. Prior to joining the Tricor Group, Ms. Cheung has worked in the role of company secretary and corporate governance area in various Hong Kong listed companies and the company secretarial department of Deloitte Touche Tohmatsu in Hong Kong. She has over 20 years of extensive experience in corporate services field and has been providing professional corporate services to different clients.

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 2013.

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 games development, including games design, programming and graphics and online games operation. The Group was also engaged in mobile Internet business which was discontinued in current year.

Details of the principal activities of the Company's principal subsidiaries are set out in note 1 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 2013 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 114.

The interim dividend of HKD0.20 per share amounting to approximately RMB81,329,000 for the six months ended 30 June 2013 was paid on 19 September 2013 and the special dividend of HKD7.77 per share amounting to approximately RMB3,130,303,000 had been approved by the Directors and was paid on 6 November 2013.

The Directors now recommend the payment of a final dividend of HKD0.20 per share. The final dividend is expected to be payable on or before Friday, 13 June 2014 to shareholders whose names appear on the register of members of the Company on Friday, 30 May 2014, amounting to approximately RMB79,977,000.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2013.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2013 set out in note 14 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 2013 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 2013 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2013 and 2012, the Company had reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB79,977,000 (2012: approximately RMB81,947,000) and retained earnings of approximately RMB110,032,000 (2012: approximately accumulated loss RMB62,230,000) 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 5.0% and approximately 1.4%, 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 28.3% and approximately 16.8%, 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.

REPORT OF THE DIRECTORS

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 2, 3, 5)
Mr. Lee Kwan Hung (Notes 1, 4, 5, 8)
Mr. Liu Sai Keung, Thomas (Notes 1, 3, 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

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 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 articles of association of the Company, Mr. Zheng Hui, Mr. Chen Hongzhan and Mr. Liu Sai Keung, Thomas will retire by rotation at the forthcoming annual general meeting (the "AGM"). Mr. Zheng Hui, Mr. Chen Hongzhan and Mr. Liu Sai Keung, Thomas, being eligible, will offer themselves for re-election at the AGM of the Company. None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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

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

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chp 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 a controlled corporation	248,925,457(L)	48.94%
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 a controlled corporation	250,076,457 (L)	49.17%
Liu Luyuan *(Note 3)*	NetDragon (Fujian)	Beneficial owner	RMB9,886,000(L)	98.86%
Liu Luyuan *(Note 3)*	NetDragon (Shanghai)	Beneficial owner and through a controlled corporation	RMB1,000,000(L)	100.00%
Zheng Hui *(Note 2)*	The Company	Beneficial owner and through controlled corporations	248,605,457(L)	48.88%

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 beneficiary of a trust	13,190,019(L)	2.59%
Chao Guowei, Charles *(Note 5)*	The Company	Beneficial owner	1,315,019(L)	0.26%
Lee Kwan Hung *(Note 5)*	The Company	Beneficial owner	1,315,019(L)	0.26%
Liu Sai Keung, Thomas *(Note 5)*	The Company	Beneficial owner	1,235,019(L)	0.24%

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 95.36% of the issued share capital of DJM Holding Ltd., which in turn is interested in 36.59% of the issued share capital of the Company.

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

   Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued share capital of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 36.59% and 3.74%, respectively, of the issued share capital of the Company. Zheng Hui owns the voting rights in respect of all the issued shares of Flowson Company Limited. Flowson Company Limited is interested in 100.00% of the issued share capital of Eagle World International Inc., which in turn is interested in 2.74% of the issued share capital of the Company.

   Liu Dejian is a brother of Liu Luyuan and a cousin of Zheng Hui who have agreed to act in concert to acquire interests in the shares in the Company. All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 48.24% of the issued share capital of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., Richmedia Holdings Limited, Fitter Property Inc. and Eagle World International Inc..

3. Liu Dejian, Liu Luyuan and Zheng Hui are interested in 96.05%, 2.11% and 0.70%, respectively, of the registered capital of Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("NetDragon (Fujian)"), which in turn is interested in 99.00% of the registered capital of Shanghai Tiankun Digital Technology Limited* (上海天坤數碼科技有限公司) ("NetDragon (Shanghai)"). Zheng Hui is directly beneficially interested in 1.00% of the registered capital of NetDragon (Shanghai). Liu Dejian, Liu Luyuan and Zheng Hui have agreed to act in concert to acquire interests in the registered capital of NetDragon (Fujian). All of Liu Dejian, Liu Luyuan and Zheng Hui are deemed to be interested in 98.86% of the registered capital of NetDragon (Fujian) and the entire registered capital of NetDragon (Shanghai) through their deemed shareholding in NetDragon (Fujian) and deemed and direct shareholding in NetDragon (Shanghai).

4. Chen Hongzhan is interested in 2.59% of the issued share capital of the Company which is represented by personal interest of 1,548,019 shares, interest held as a beneficiary of a trust of 11,109,000 shares and the rest being underlying shares of interest of 533,000 share options granted by the Company.

5. On 22 July 2011, 23 April 2012 and 4 December 2013, the Company granted 400,000 share options, 400,000 share options and 318,000 share options to each of Chao Guowei, Charles, Lee Kwan Hung and Liu Sai Keung, Thomas respectively.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2013, none of the Directors and chief executive of the Company had any interest and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED TRANSACTIONS" stated in this report and note 43 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 2013, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	**Name of Group member**	**Capacity and nature of interests**	**Number of ordinary shares held or amount of registered capital contributed** *(Note 1)*	**Approximate percentage of shareholding**
DJM Holding Ltd.	The Company	Beneficial owner	186,078,100(L)	36.59%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%
IDG Group *(Note 2)*	The Company	Beneficial owner	78,333,320(L)	15.40%
Ho Chi Sing *(Note 2)*	The Company	Through controlled corporations	78,333,320(L)	15.40%
Zhou Quan *(Note 2)*	The Company	Through controlled corporations	73,490,095(L)	14.45%
Richmedia Holdings Limited *(Note 3)*	The Company	Beneficial owner	26,344,800(L)	5.18%

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 2.14%, 10.22%, 2.09% and 0.95% respectively, in the Company who are deemed to be acting in concert to acquire interests in the Company, and their respective controlling entities. The controlling structure of each of the above partnerships is as follows:

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

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

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

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

Save as disclosed above, the Directors are not aware of any persons (other than a Director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were required to be entered in the register kept by the Company under Section 336 of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at 31 December 2013.

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, Fujian TQ Digital Inc. (福建天晴數碼有限公司) ("TQ Digital") and Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司) ("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 Shanghai Tiankun Digital Technology Limited* (上海天坤數碼科技有限公司) ("NetDragon (Shanghai)"), and accordingly, they are regarded as our subsidiaries and their results are to be consolidated into our consolidated 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 consolidated financial statements using merger accounting as if NetDragon (Fujian) and NetDragon (Shanghai) were part of us since their respective date of establishment or since the date when they first came under the common control.

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

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

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

ND Cooperation Framework Agreement (Cont'd)

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

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.

CONNECTED TRANSACTIONS (Cont'd)

ND STRUCTURE CONTRACTS (Cont'd)

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.

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 Websoft (Hong Kong) Limited ("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 2013, no ND Other Contract has been entered into.

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), 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 Websoft Inc. ("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 specific 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").

Due to a very substantial disposal of 91 Wireless by way of merger and connected transaction in 2013, NetDragon (Fujian) achieved a gain and the net asset value as at 31 December 2013 amounted to RMB305,183,000 which exceeded the maximum net asset value established at 31 December 2006 of RMB15,000,000 as set out in the waiver granted by the Stock Exchange of Hong Kong Limited in 2008 (the "Waiver"). The Company has made enquires and communicated with the Stock Exchange of Hong Kong Limited before 31 December 2013. NetDragon (Fujian) and TQ Digital entered into a donation agreement on 21 March 2014. As a result of the donation, the net asset value of NetDragon (Fujian) has been restored below the level of RMB15,000,000 as required in the Waiver and the disposal profit of NetDragon (Fujian) has been transferred to TQ Digital. Other than stated above, 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 2013 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) flows 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 91 Wireless Websoft Limited ("91 Wireless") and its shareholders as a whole by means of contractual arrangements, NetDragon (Fujian), Fuzhou BoYuan Wireless Websoft Technology Ltd. (福州博遠無綫網絡科技有限公司) ("Fuzhou BoYuan") and/or Fujian BoRui Websoft Technology Limited* (福建博瑞網絡科技有限公司) ("Fujian BoRui"), which is cloning the ND Structure Contracts, entered into the 91 Structure Contracts. (the "91 Structure Contracts"), which superseded the cooperation arrangements between Fuzhou BoYuan and Fujian BoRui effective from 30 May 2011.

Under the 91 Structure Contracts, Fujian BoRui 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 BoRui. The 91 Structure Contracts enable Fuzhou BoYuan to control over and to acquire the equity interests in and/or assets of Fujian BoRui when permitted by the relevant PRC laws and regulations.

On 30 May 2011, Fuzhou BoYuan and Fujian BoRui entered into a cooperation framework agreement (the "91 Coorperation Framework Agreement") pursuant to which Fuzhou BoYuan and Fujian BoRui 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 BoRui. 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 BoRui with reference to the amount of expenditure incurred by Fujian BoRui in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) Fujian BoRui shall pay the maximum amount of fees to Fuzhou BoYuan without incurring any loss for each financial year; and (ii) the net asset value of Fujian BoRui shall not exceed approximately RMB10,000,000. This principle will ensure that all of the net profit after tax of Fujian BoRui in each financial year shall be paid to Fuzhou BoYuan 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 is able to control Fujian BoRui, accordingly, it is regarded as subsidiary of 91 Wireless and its results are to be consolidated into financial statements of 91 Wireless. Since Fujian BoRui was under the common control of the same group of persons before and after our formation, the results and financial positions of Fujian BoRui is combined into financial statements of 91 Wireless using merger accounting as if Fujian BoRui 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 (where relevant) entered into the technical support service agreements with Fujian BoRui, for the purpose of license, development of mobile Internet business and provision of technical services to Fujian BoRui. 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 will provide technical support services to Fujian BoRui	• 10 years commencing from 30-05-2011 to 29-05-2021 • Consideration of a per annum services fee determined as a percentage of Fujian BoRui's annual gross revenues

91 Equity Interest Pledge Agreement

On 30 May 2011, Fuzhou BoYuan, Fujian BoRui and NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to Fuzhou BoYuan a continuing first priority security interests over their respective equity interests in the registered capital of Fujian BoRui, representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by Fujian BoRui'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, Fujian BoRui and NetDragon (Fujian) entered into an agreement for the exclusive right to acquire equity interest and assets, pursuant to which Fujian BoRui and NetDragon (Fujian) granted to Fuzhou BoYuan or its designee (a) a right to acquire part or all of the equity interest in the registered capital of Fujian BoRui; and (b) a right to acquire part or all of the assets of Fujian BoRui from NetDragon (Fujian) as and when permitted by the relevant PRC laws and regulations. The amount of consideration payable by Fuzhou BoYuan to NetDragon (Fujian) shall be a nominal amount or the lowest possible amount permissible under the applicable PRC law.

CONNECTED TRANSACTIONS (Cont'd)

91 STRUCTURE CONTRACTS (Cont'd)

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 and Fujian BoRui, pursuant to which NetDragon (Fujian) have irrevocably authorised Fuzhou BoYuan or a nominee designated by Fuzhou BoYuan (which will likely be a director of Fuzhou BoYuan) to exercise all their voting rights in Fujian BoRui. The term of the 91 Proxy Agreement shall continue indefinitely for so long as Fujian BoRui subsists in order to secure our control over Fujian BoRui.

As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company due to the completion of the very substantial disposal of 91 Wireless. For details of the very substantial disposal of 91 Wireless and the transactions contemplated thereunder, please refer to the Company's announcements dated 15 July 2013, 16 August 2013, 1 October 2013, 3 October 2013 and 11 October 2013.

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, NetDragon (Fujian), Fujian Tianquan Education Technology Limited ("Fujian Tianquan") and Fujian Huayu Education Technology Limited ("Fujian Huayu") (formerly known as "Fujian Best Assistant Education Technology Limited"), which is cloning the ND Structure Contracts entered into the original best assistant structure contracts and the supplemental agreement to the original best assistant structure contracts (collectively the " Best Assistant Structure Contracts").

Under the Best Assistant Structure Contracts, Fujian Huayu 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 Huayu. The Best Assistant Structure Contracts enable Fujian Tianquan to control over and to acquire the equity interests in and/or assets of Fujian Huayu when permitted by the relevant PRC laws and regulations.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT STRUCTURE CONTRACTS (Cont'd)

Best Assistant Cooperation Framework Agreement (Cont'd)

On 22 August 2012, Fujian Tianquan and Fujian Huayu entered into a cooperation framework agreement (the "Best Assistant Coorperation Framework Agreement") pursuant to which Fujian Tianquan and Fujian Huayu 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 Huayu. 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 Huayu with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements, including the guiding principles that (i) Fujian Huayu 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 Huayu 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 Huayu 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 Huayu, 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 Huayu was under the common control of the same group of persons before and after our formation, the results and financial positions of Fujian Huayu is combined into financial statements using merger accounting as if Fujian Huayu was part of us since its date of establishment or since the date when it first came under the common control.

In accordance with the terms of the Best Assistant Cooperation Framework Agreement, Fujian Tianquan (where relevant) entered into the original technical support service agreements with Fujian Huayu, for the purpose of license, development of educational softwares business and provision of technical services to Fujian Huayu. On 12 December 2013, Fujian Tianquan and Fujian Huayu entered into a Supplemental Agreement to the original technical support service agreement, all the terms and conditions under the Supplemental Agreement remained unchanged. Details of the agreement are set out below:

Date of agreement signed	Name of agreement	Summary of agreement	Terms of agreement
22-08-2012 and 12-12-2013	Technical support service agreement	Fujian Tianquan will provide technical support services to Fujian Huayu	• 10 years commencing from 22-08-2012 to 21-08-2022 • Consideration of a per annum services fee determined as a percentage of Fujian Huayu annual gross revenues

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT STRUCTURE CONTRACTS (Cont'd)

Best Assistant Equity Interest Pledge Agreement

On 22 August 2012, Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) entered into an original 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 Huayu, representing all of the equity interest in its registered capital, for the purpose of securing the performance of the contractual obligations by Fujian Huayu'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 Huayu and NetDragon (Fujian) entered into an original agreement for the exclusive right to acquire equity interest and assets, pursuant to which Fujian Huayu 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 Huayu; and (b) a right to acquire part or all of the assets of Fujian Huayu 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 original equity holders' voting rights proxy agreement (the "Original Best Assistant Proxy Agreement") with Fujian Tianquan and Fujian Huayu, 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 Huayu. The term of the Best Assistant Proxy Agreement shall continue indefinitely for so long as Fujian Huayu subsists in order to secure our control over Fujian Huayu.

Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) entered into a Supplemental Agreement to the Original Best Assistant Structure Contracts, a Supplemental Agreement to the Original Equity Interest Pledge Agreement, a Supplemental Agreement to the Original Agreement for the Exclusive Right to Acquire Equity Interest and Assets and a Supplemental Agreement to the Original Best Assistant Proxy Agreement on 12 December 2013, all the terms and conditions under the Supplemental Agreements remained unchanged.

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 Yangzhenhua 851 Bio-Engineering Research Inc. ("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 RMB2,544,000 (equivalent to approximately HKD2,875,000).

   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 851 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 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 BoRui, Fujian BoRui 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 BoRui 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.

Upon completion of the very substantial disposal of 91 Wireless, Fujian BoRui ceased to be a subsidiary of the Company.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

3. Transaction in relation to Service Agreement between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang Network Technology Company Limited (福州天亮網絡技術有限公司) (" Fuzhou Tianliang")

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 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 (福州天亮網絡技術有限公司) ("Fuzhou Tianliang") (Cont'd)

Upon the entering into of the 91 Structure Contracts and to segregate the obligations between TQ Digital, NetDragon (Fujian) and Fujian BoRui, Fujian BoRui 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	**Year ended 31 December 2011**	**Year ended 31 December 2012**
	RMB	RMB	RMB
Computer system repair and maintenance fees	2,500,000	2,600,000	2,600,000
After-sales service charges	11,500,000	12,200,000	12,200,000
Total	14,000,000	14,800,000	14,800,000

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

Further details of the 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 BoRui 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 BoRui for a period from 1 January 2013 to 31 December 2015.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

3. Transaction in relation to Service Agreement between TQ Digital, NetDragon (Fujian) and Fuzhou Tianliang Network Technology Company Limited (福州天亮網絡技術有限公司) ("Fuzhou Tianliang") (Cont'd)

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 ended 31 December 2013 RMB	Year ending 31 December 2014 RMB	Year ending 31 December 2015 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 BoRui 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.

Upon completion of the very substantial disposal of 91 Wireless, Fujian BoRui ceased to be a subsidiary of the Company.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

4. Transaction in relation to Server Maintenance Contracts between NetDragon (Fujian), Fujian BoRui and Fujian BoDong Cultural and Communication Ltd.* (福建博動文化傳播有限公司) ("Fujian BoDong")

   On 25 October 2012, Fujian BoRui, a subsidiary of 91 Wireless, entered into a server maintenance contract (the "Server Maintenance Contract A") with NetDragon (Fujian), pursuant to which NetDragon (Fujian) agreed to provide maintenance management services to Fujian BoRui on certain servers owned by Fujian BoRui 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 HKD1,892,902), RMB3,376,160 (equivalent to approximately HKD4,147,973) and RMB6,008,140 (equivalent to approximately HKD7,381,642), respectively.

   On 25 October 2012, Fujian BoDong, 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), pursuant to which NetDragon (Fujian) agreed to provide maintenance management services to Fujian BoDong on certain servers owned by Fujian BoDong 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 HKD474,132), RMB813,040 (equivalent to approximately HKD998,907) and RMB1,446,860 (equivalent to approximately HKD1,777,622), respectively.

   Fujian BoRui, through the 91 Structure Contracts, is regarded as a subsidiary of Fuzhou BoYuan. Each of Fujian BoDong and Fuzhou BoYuan 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 BoRui and Fujian BoDong 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.

   As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company due to the completion of the very substantial disposal of 91 Wireless.

* *For identification purpose only.*

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

5. 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.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

5. Transaction in relation to Promotion and Operation Cooperation Framework Agreement between the Company and 91 Wireless (Cont'd)

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

	For the year ended 31 December 2013 RMB	**For the year ending 31 December 2014** RMB	**For the year ending 31 December 2015** 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)

On 14 August 2013, the Company entered into the supplemental agreement to the New Cooperation Agreement (the "New Cooperation Supplemental Agreement") with 91 Wireless, pursuant to which the Company has agreed to terminate the technical service provided to 91 Wireless.

Upon completion of the very substantial disposal of 91 Wireless on 1 October 2013, the Company entered into a termination agreement in relation to both the New Cooperation Agreement and New Cooperation Supplemental Agreement and the termination agreement shall be effective from 1 October 2013.

On 1 October 2013, the Company entered into another cooperation agreement with 91 Wireless (the "Cooperation Agreement") with the similar terms with the New Cooperation Agreement. As the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company after 1 October 2013, the Cooperation Agreement and the transaction contemplated thereunder shall not constitute continuing connected transaction.

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

5. Transaction in relation to Promotion and Operation Cooperation Framework Agreement between the Company and 91 Wireless (Cont'd)

   The independent non-executive Directors have reviewed the above Transactions conducted during the year ended 31 December 2013 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, the Old Cooperation Agreement and the New Cooperation Supplemental 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 2013 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, the Old Cooperation Agreement and the New Cooperation Supplemental Agreement are also disclosed in note 43 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.

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

5. Transaction in relation to Promotion and Operation Cooperation Framework Agreement between the Company and 91 Wireless (Cont'd)

   In addition, the Company has engaged its auditor to report on the ND Structure Contracts, the ND Other 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, the Old Cooperation Agreement and the New Cooperation Supplemental 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.

   Due to a very substantial disposal of 91 Wireless by way of merger and connected transaction in 2013, NetDragon (Fujian) achieved a gain and the net asset value as at 31 December 2013 amounted to RMB305,183,000 which exceeded the maximum net asset value established at 31 December 2006 of RMB15,000,000 as set out in the waiver granted by the Stock Exchange of Hong Kong Limited in 2008 (the "Waiver"). The Company has made enquires and communicated with the Stock Exchange of Hong Kong Limited before 31 December 2013. NetDragon (Fujian) and TQ Digital entered into a donation agreement on 21 March 2014. As a result of the donation, the net asset value of NetDragon (Fujian) has been restored below the level of RMB15,000,000 as required in the Waiver and the disposal profit of NetDragon (Fujian) has been transferred to TQ Digital. The auditor has issued qualified opinion containing the conclusion in respect of the ND Structure Contracts and the ND Other contracts which are in compliance with the Rule 14A.38 of the Listing Rules other than stated above.

   Also, the auditor has issued unqualified opinion containing the conclusions in respect of 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, the Old Cooperation Agreement and the New Cooperation Supplemental Agreement set out above which are in compliance with the Rule 14A.38 of the Listing Rules.

   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 2013.

CONNECTED TRANSACTIONS

1. Issue of promissory 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 and 21 September 2011, 10 and 20 February 2012, respectively.

As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company due to the completion of the very substantial disposal of 91 Wireless.

CONNECTED TRANSACTIONS (Cont'd)

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 was a connected person 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 USD3,000,000.

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.

As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company due to the completion of the very substantial disposal of 91 Wireless.

3. Issue of Ordinary Shares by 91 Wireless to NetDragon (BVI)

On 9 January 2013, NetDragon (BVI) entered into a subscription agreement (the "Ordinary Share Subscription Agreement") with 91 Wireless who was a connected person of the Company. Pursuant to the Ordinary Share Subscription Agreement, 91 Wireless agreed to issue and allot 13,131,278 Ordinary Shares to NetDragon (BVI) for a total consideration of USD25,131,201.

All conditions under the Ordinary Share Subscription Agreement had been fulfilled or waived and the closing of the Ordinary Share Subscription Agreement (the "Completion") took place on the same date of the Ordinary Share Subscription Agreement.

Further details of the Ordinary Share Subscription Agreement, the completion are set out in the announcement of the Company dated 10 January 2013.

On 9 January 2013, NetDragon (BVI), awarded 6,114,500 ordinary shares of 91 Wireless to certain employees of the Group.

CONNECTED TRANSACTIONS (Cont'd)

3. Issue of Ordinary Shares by 91 Wireless to NetDragon (BVI) (Cont'd)

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

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

CONNECTED TRANSACTIONS (Cont'd)

3. Issue of Ordinary Shares by 91 Wireless to NetDragon (BVI) (Cont'd)

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

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

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

As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company due to the completion of the very substantial disposal of 91 Wireless.

CONNECTED TRANSACTIONS (Cont'd)

4. The very substantial disposal of 91 Wireless and its group companies (the "91 Wireless Group") by way of merger

   On 15 July 2013, the Company, NetDragon (BVI) and Baidu Holdings Limited signed a memorandum of understanding (the "Memorandum of Undertaking") for the proposed disposal of the issued share capital of 91 Wireless.

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

   The Merger Agreement

   Pursuant to the terms and subject to the conditions of the Merger Agreement, Merger Sub will merge with and into 91 Wireless (the "Merger") at the time on which the Merger becomes effective as set out in the plan of merger as appended in the Merger Agreement in accordance with the Companies Law of the Cayman Islands (the "Effective Time"), with 91 Wireless surviving the Merger and becoming a wholly owned subsidiary of Baidu HK as a result of the Merger. The consideration for the Merger is USD1,847.94 million (equivalent to approximately HKD14,336.09 million).

   As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company. Special dividend of HKD7.77 per share was paid to the shareholders of the Company on 6 November 2013.

   For details of the very substantial disposal, the Merger Agreement and the transactions contemplated thereunder, please refer to the Company's announcements dated 15 July 2013, 16 August 2013, 1 October 2013, 3 October 2013 and 11 October 2013.

   As at 1 October 2013, the Company ceased to hold any interest in 91 Wireless and each member of the 91 Wireless Group ceased to be a subsidiary of the Company due to the completion of the very substantial disposal of 91 Wireless.

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 2013 and as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2013, the Company repurchased a total of 5,685,500 shares on the Stock Exchange at an aggregate consideration of HKD104,000,240 before expenses.

Details of the share repurchase are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HKD	HKD	HKD
July 2013	2,794,500	18.60	17.44	50,948,020
August 2013	1,653,000	18.50	18.00	30,272,780
September 2013	1,238,000	18.50	18.20	22,779,440

PUBLIC FLOAT

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

SHARE OPTION SCHEME

Pursuant to the resolution of the shareholders of the Company dated 12 June 2008, the Company adopted a new share option scheme (the "Main Board Share Option Scheme") to replace the existing share option scheme. Details of the share options outstanding and movement during the year ended 31 December 2013 are as follows:

Grantee	Date of grant	Exercise Price	As at 1 January 2013	Number of share options			As at 31 December 2013
				Granted	Exercised	Lapsed	
		HKD					
Executive Directors							
Liu Dejian	07.12.2009	4.33	1,600,000	–	1,280,000	–	320,000
	22.07.2011	4.60	284,000	–	71,000	–	213,000
Liu Luyuan	07.12.2009	4.33	1,400,000	–	–	–	1,400,000
	22.07.2011	4.60	284,000	–	–	–	284,000
Zheng Hui	22.07.2011	4.60	284,000	–	71,000	–	213,000
Chen Hongzhan	07.12.2009	4.33	1,600,000	–	1,280,000	–	320,000
	22.07.2011	4.60	284,000	–	71,000	–	213,000
Independent non-executive Directors							
Chao Guowei, Charles	22.07.2011	4.60	400,000	–	200,000	–	200,000
	23.04.2012	5.74	400,000	–	100,000	–	300,000
	04.12.2013	15.72	–	318,000	–	–	318,000
Lee Kwan Hung	22.07.2011	4.60	300,000	–	100,000	–	200,000
	23.04.2012	5.74	400,000	–	100,000	–	300,000
	04.12.2013	15.72	–	318,000	–	–	318,000
Liu Sai Keung, Thomas	22.07.2011	4.60	400,000	–	200,000	–	200,000
	23.04.2012	5.74	400,000	–	100,000	–	300,000
	04.12.2013	15.72	–	318,000	–	–	318,000
Others							
Employees	07.12.2009	4.33	2,200,000	–	2,040,000	–	160,000
	28.04.2011	4.80	11,867,687	–	2,721,453	1,129,450	8,016,784
	22.07.2011	4.60	1,087,780	–	404,317	79,000	604,463
	23.04.2012	5.74	1,978,000	–	170,243	206,090	1,601,667
	06.07.2012	6.53	735,250	–	68,175	79,000	588,075
	12.09.2012	7.20	117,500	–	4,500	30,000	83,000
	16.01.2013	11.164	–	789,500	–	89,500	700,000
Total			26,022,217	1,743,500	8,981,688	1,613,040	17,170,989

SHARE OPTION SCHEME (Cont'd)

Notes:

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

2. On 4 December 2013, 954,000 share options were granted to the Directors of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 4 December 2013 (the trading day on the grant of the share options) was HKD15.72.

3. During the year under review, 3,573,000 share options were exercised by Directors 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 if the nominal value of awards in aggregate granted by the Board under the NetDragon Share Award Scheme is 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 2013, 1,269,603 shares awarded to a number of selected participants have not been vested. The awarded shares, which were purchased at a price of HKD5.07 per share by the Trustee, will be transferred to the selected employees at nil consideration, subject to receipt by the Trustee of (i) transfer documents duly signed by the Trustee and the selected employee within the period stipulated in the vesting notice issued by the Trustee to the selected employee; and (ii) a confirmation letter from the Company that all vesting conditions having been fulfilled.

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

Subject to the acceptance by the relevant selected employees, such transferred 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 2013, details of the awarded shares under the Share Award Scheme were as follows:

Average price per share (HKD) *(Note)*	**As at 1 January 2013**	**Number of shares Vested during the year**	**Number of shares granted during the year**	**As at 31 December 2013**
5.07	1,587,000	(317,397)	1,269,603	1,269,603

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

SHARE AWARD SCHEME (Cont'd)

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 1 October 2013, 9,615,000 awarded shares (of which 117,500 shares and 49,675 shares were returned shares pursuant to the rules of the 91 Share Award Scheme and were re-granted on 31 December 2012 and 16 September 2013 respectively) were granted to a number of selected participants. The awarded shares, which were purchased at par value of USD0.0001 per share by the Trustee from Treasure New Limited, an indirect wholly owned subsidiary of the Company, will be transferred to the selected participants at nil consideration. Subject to, inter alia, the receipt by the Trustee of (i) the prescribed transfer documents duly signed by the selected participants within the period stipulated in the vesting notices; and (ii) a confirmation from 91 Wireless that all vesting conditions having been fulfilled, the award shares will be transferred to the selected participants at nil consideration upon vesting.

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

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

As at 1 October 2013, upon the completion of the very substantial disposal of 91 Wireless, each selected participant under the 91 Share Award Scheme ceased to hold any interest in 91 Wireless.

SHARE AWARD SCHEME (Cont'd)

Best Assistant Education Online Limited ("Best Assistant")

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

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

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

As at 31 December 2013, no awarded shares were granted under the Best Assistant Share Award Scheme.

AUDITOR

The consolidated financial statements for the year ended 31 December 2013 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
Liu Dejian
Chairman

Hong Kong, 27 March 2014

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 provisions set out in the Corporate Governance Code (the "CG Code") 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 year 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 52 to 57. 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 current term unless and until terminated in accordance with the terms of the appointment letter or by either party thereto giving to the other not less than three months' prior written notice.

Duties of the Board including delegation to management

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

Duties of the Board include:

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

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

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

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

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

During the year, the Board held seven meetings and the attendance of each of the Directors at Board, committee and general meetings held in 2013 is set out below:

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

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

Code provision E.1.2 requires that the Chairman of the Board should invite the Chairman of the audit, remuneration, nomination and any other committee (as appropriate) to attend the annual general meeting of the Company ("AGM") and in their absence, he should invite another member of the committee or failing this his duly appointed delegate(s) to attend. These persons should be available to answer questions at the AGM. Mr. Lee Kwan Hung and Mr. Liu Sai Keung, Thomas both are members of the audit committee of the Company, attended the AGM held on 24 May 2013. Due to other commitment, the Chairman of the Audit Committee, Mr. Chao Guowei, Charles did not attend the AGM of the Company held on 24 May 2013.

Board and committee minutes are recorded in appropriate detail. 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.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors are also provided with monthly updates which contain periodic financials with summaries and covering highlights of the Company's major businesses of key events, outlook and business related matters of the Group. The monthly updates present a balanced and understandable assessment of the Company's performance and position. The non-executive Director and independent non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

DIRECTORS' INTEREST IN CONTRACT

With reference to the ND Structure Contracts entered into among TQ Digital, TQ Online and NetDragon (Fujian), the executive Directors, Messrs. 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 Messrs. 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 67 to 71 in the section of "Report of the Directors" under the paragraphs of "ND Structure Contracts".

With reference to the Best Assistant Structure Contracts entered into among Fujian Tianquan, Fujian Huayu (formerly known as "Fujian Best Assistant"), an indirect wholly owned subsidiary of Best Assistant (Cayman), and NetDragon (Fujian), which is technically an associate of Messrs. 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 72 to 74 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 among 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, Messrs. 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 91 Structure Contracts entered into among Fujian BoRui, Fuzhou BoYuan, an indirect wholly owned subsidiary of 91 Wireless, and NetDragon (Fujian), which held all equity interests of Fujian BoRui under the laws of the PRC, through the 91 Structure Contracts, Fuzhou BoYuan is able to control Fujian BoRui and accordingly, Fujian BoRui will be regarded as a subsidiary of Fuzhou BoYuan. 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, therefore IDG investors are 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 74 to 76 in the section of "Report of the Directors" under the paragraphs of "91 Structure Contracts".

With reference to the continuing connected transactions for the TQ Tenancy Agreements entered into among Fujian BoRui, Fuzhou BoYuan and TQ Digital. Both Fujian BoRui and Fuzhou BoYuan 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 among NetDragon (Fujian), Fujian BoRui and Fujian BoDong. Both Fujian BoRui and Fujian BoDong are subsidiaries of 91 Wireless, thus, are deemed to be connected persons to the Company.

With reference to the continuing connected transactions under the Promotion and Operation Cooperation Framework Agreement and the Supplemental Agreement to the Promotion and Operation Cooperation Framework Agreement entered into between the Company and 91 Wireless, a connected person of the Company, 91 Wireless and its subsidiaries ceased to be subsidiaries of the Company on 1 October 2013 after the disposal of the entire equity interests in 91 Wireless by NetDragon (BVI).

Details for the continuing connected transactions are set out in pages 77 to 91 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 2013 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. 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 continuing connected transactions and connected transactions relating to ND structure contracts, ND other contracts, 91 Structure Contracts and Best Assistant Structure Contracts of the Group.

The Audit Committee held four meetings during the year ended 31 December 2013. The major work performed by the Audit Committee in respect of the year ended 31 December 2013 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the first quarterly results announcement for the three months ended 31 March 2013, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2013, reviewing the third quarterly results announcement for the nine months ended 30 September 2013, reviewing the audited accounts and final results announcement for the year ended 31 December 2013, reviewing the work of the Group's internal audit and assessing the effectiveness of the Group's systems of risk management, corporate governance and cost control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, and training programmes and budget.

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.

To be in line with the CG Code Provisions requirements, the terms of reference of the Audit Committee of the Company has been updated in March 2012 to include the following corporate governance functions delegated by the Board:

- to oversee, with the delegated responsibility of the Board, the corporate governance functions of the Company;
- to develop and review the policies and practices of the Company on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report.

The written terms of reference 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 2013 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company established the remuneration committee (the "Remuneration Committee") on 15 October 2007 which adopts model of determining the remuneration packages for all directors and senior management. 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.

During the year ended 31 December 2013, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company as well as the remuneration of senior management staff. The Remuneration Committee also reviews the remuneration of the Directors with reference to the remuneration level of directors of comparable listed companies.

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.

Terms of reference of the Remuneration Committee had been updated in March 2012 in alignment with the Code Provision B.1.2 as set out in the CG Code. The written terms of reference are posted on 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 (the "Nomination Committee") on 15 October 2007, its terms of reference have been updated in March 2012 and August 2013, respectively, in order to comply with the Code Provision A.5.2 as set out in the CG Code. The Nomination Committee follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The Nomination Committee reviews the structure, size and composition of the Board, identifies suitably qualified candidates to become Board members and select or make recommendations to the Board on the selection of candidates nominated for directorships and succession planning for directors. During this process, the Nomination Committee considers candidates based on merit and with due regard to the benefits of diversity on the Board.

During the year ended 31 December 2013, the Nomination Committee held a meeting to review the structure, size and composition of the Board and assessed the independence of the three independent non-executive Directors of the Company. The Nomination Committee is of the view that the current Board demonstrates a balanced composition with sufficient independence element.

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.

On 30 August 2013, the Board adopted the board membership diversity policy for maintaining the appropriate skills and experience required by the Company's business and a diversity of perspectives on the Board.

The following is a summary of the board diversity policy:

- reviewing and assessing the composition of the Board to maintain an appropriate range and balance of talents, skills, experience and background on the Board;
- recommending candidates for appointment to the Board by considering merit against objective criteria and with due regard for the benefits of diversity on the Board; and
- conducting the annual review of the effectiveness of the Board by considering the balance of talents, skills, experience, independence and knowledge of the Board and the diversity of the Board.

The achievement of these criteria will be measurable on an objective review, which can enhance the diversity of background and experience of individual directors and the effectiveness of the Board in protecting shareholders' interests.

The written terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company.

ND MANAGEMENT COMMITTEE

The Company established the ND Management Committee pursuant to the ND 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 ND 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

Before the disposal of 91 Wireless, 91 Wireless established the 91 Management Committee pursuant to the 91 Structure Contracts to oversee the business and operations of Fujian BoRui. Through its control over Fujian BoRui, the 91 Management Committee is also able to oversee the business and operations of the subsidiaries of Fujian BoRui. The 91 Management Committee comprises four members, of which each of Fuzhou BoYuan and Fujian BoRui 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 BoRui must also be the members of ND Management Committee appointed by NetDragon (Fujian) and the members appointed by Fuzhou BoYuan 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 and Fujian BoRui is less than two, Fuzhou BoYuan is entitled to appoint an additional member of the 91 Management Committee. As such, under the 91 Structure Contracts, the 91 Management Committee is allowed to have a maximum of five members.

91 Wireless and its subsidiaries ceased to be subsidiaries of the Company on 1 October 2013 after the disposal of the entire equity interests in 91 Wireless by NetDragon (BVI).

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 Huayu (formerly known as "Fujian Best Assistant"). Through its control over Fujian Huayu, the Best Assistant Management Committee is also able to oversee the business and operations of the subsidiaries of Fujian Huayu. The Best Assistant Management Committee comprises four members, of which each of Fujian Tianquan and Fujian Huayu 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 Huayu 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 Huayu 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.

Currently, the Best Assistant Management Committee comprises Liu Dejian and Liu Luyuan who were appointed by Fujian Huayu, and Zheng Hui and Chen Hongzhan who were appointed by Fujian Tianquan. The directors of Fujian Huayu 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 member of the senior management, namely Yam Kwok Hei, Benjamin.

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. In 2013, 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	1,181
Non-audit services	6,004
	7,185

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.

COMPANY SECRETARY

Ms. Cheung Yuet Fan of Tricor Services Limited, external service provider, has been engaged by the Company as the company secretary. Its primary contact person at the Company is Mr. Wood Lau, Financial Controller and Head of Compliance and Corporate Affairs of the Company. Ms. Cheung also confirmed that she has taken no less than 15 hours of relevant professional training during the year ended 31 December 2013.

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 putting forward any enquiries or proposals to the Board by fax: (852) 2850 7066 or mail to Rm 2209, 22/F., West Tower, Shun Tak Centre, 168-200 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 2013 was approximately HKD7,222.3 million (entire issued share capital: 508,609,711 shares) at closing market price: HKD14.20 per share. The public float is around 33%.

The AGM will be held at Plaza Meeting Room, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 23 May 2014.

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 114 to 224, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 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.

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 2013, 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 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 (Restated) RMB'000
Continuing operations			
Revenue	5	**884,518**	825,744
Cost of revenue		**(81,426)**	(54,404)
Gross profit		**803,092**	771,340
Other income and gains	5	**44,980**	48,909
Selling and marketing expenses		**(106,200)**	(113,555)
Administrative expenses		**(366,143)**	(206,137)
Development costs		**(162,857)**	(146,208)
Other expenses		**(10,046)**	(22,249)
Share of losses of associates		**(16)**	(544)
Operating profit		**202,810**	331,556
Interest income on pledged bank deposit		**4,883**	4,849
Exchange gain on pledged bank deposit and secured bank borrowing		**4,593**	10,807
Net loss on other financial liability	33	**(5,481)**	(10,679)
Gain on disposal of available-for-sale investment		**5,761**	—
Net gain (loss) on held for trading investments		**8,756**	(61)
Finance costs	6	**(4,651)**	(4,276)
Profit before taxation		**216,671**	332,196
Taxation	8	**(50,264)**	(50,356)
Profit for the year from continuing operations	10	**166,407**	281,840
Discontinued operations			
Profit (loss) for the year from discontinued operations	9	**6,056,041**	(242,879)
Profit for the year		**6,222,448**	38,961
Other comprehensive expense for the year, net of income tax:	38		
Exchange differences arising on translation of foreign operations that may be reclassified subsequently to profit or loss		**(1,130)**	(64)
Total comprehensive income for the year		**6,221,318**	38,897

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTE	2013 RMB'000	2012 (Restated) RMB'000
Profit (loss) for the year attributable to:			
– Owners of the Company		**6,140,776**	39,176
– Non-controlling interests		**81,672**	(215)
		6,222,448	38,961
Profit (loss) for the year attributable to owners of the Company:			
– from continuing operations		**164,352**	282,029
– from discontinued operations		**5,976,424**	(242,853)
Profit for the year attributable to owners of the Company		**6,140,776**	39,176
Profit (loss) for the year attributable to non-controlling interests:			
– from continuing operations		**2,055**	(189)
– from discontinued operations		**79,617**	(26)
Profit (loss) for the year attributable to non-controlling interests		**81,672**	(215)
Total comprehensive income (expense) attributable to:			
– Owners of the Company		**6,139,646**	39,112
– Non-controlling interests		**81,672**	(215)
		6,221,318	38,897
		RMB cents	RMB cents
Earnings per share			
From continuing and discontinued operations	13		
– Basic		**1,213.44**	7.71
– Diluted		**1,181.10**	7.60
From continuing operations			
– Basic		**32.48**	55.50
– Diluted		**31.75**	54.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	14	**532,684**	345,415
Prepaid lease payments	15	**185,819**	139,678
Investment property	16	**15,725**	16,217
Intangible assets	17	**–**	2,626
Interests in associates	18	**1,299**	11,793
Interest in a joint venture	19	**–**	18,015
Available-for-sale investments	20	**5,000**	5,000
Loan receivables	21	**16,041**	9,969
Deposits made for acquisition of property, plant and equipment		**16,769**	–
Other receivable	22	**60,969**	–
Goodwill	23	**12,534**	12,534
Deferred tax assets	24	**54**	1,586
		846,894	562,833
Current assets			
Prepaid lease payments	15	**2,583**	2,902
Loan receivables	21	**713**	3,143
Trade receivables	25	**41,718**	61,427
Other receivables, prepayments and deposits		**69,770**	72,101
Held for trading investments	26	**20,735**	4,939
Amounts due from related companies	27	**4,564**	3,637
Amount due from a joint venture	28	**–**	3,060
Pledged bank deposit	29	**107,368**	194,405
Bank deposits	29	**3,051,289**	394,081
Bank balances and cash	29	**1,304,355**	1,142,825
		4,603,095	1,882,520

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Current liabilities			
Trade and other payables	30	**152,837**	222,137
Deferred income		**26,553**	24,778
Amount due to a related company	31	**–**	121
Amount due to an associate	31	**–**	5,600
Secured bank borrowing	32	**104,672**	183,595
Other financial liability	33	**3,122**	10,679
Income tax payable		**539,927**	66,355
		827,111	513,265
Net current assets		**3,775,984**	1,369,255
Total assets less current liabilities		**4,622,878**	1,932,088
Non-current liabilities			
Redeemable convertible preferred shares	34	**–**	195,115
Conversion option derivative liability	34	**–**	314,829
Deferred tax liabilities	24	**–**	6,141
		–	516,085
Net assets		**4,622,878**	1,416,003
Capital and reserves			
Share capital	35	**37,664**	37,532
Share premium and reserves		**4,577,478**	1,356,317
Equity attributable to owners of the Company		**4,615,142**	1,393,849
Non-controlling interests		**7,736**	22,154
		4,622,878	1,416,003

The consolidated financial statements on pages 114 to 224 were approved and authorised for issue by the Board of Directors on 27 March 2014 and are signed on its behalf by:

Liu Dejian	**Zheng Hui**
Director	Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	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 compensation reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	38,226	1,113,005	3,001	2,209	9,946	140,883	50,062	673	(7,552)	19,054	(58,115)	187,960	1,499,352	(458)	1,498,894
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	–	–	39,176	39,176	(215)	38,961
Other comprehensive expense 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)
Shares 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
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	6,140,776	6,140,776	81,672	6,222,448
Other comprehensive expense for the year	–	–	–	–	–	–	–	–	–	–	(1,130)	–	(1,130)	–	(1,130)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	–	–	(1,130)	6,140,776	6,139,646	81,672	6,221,318
Repurchase and cancellation of shares	(422)	(82,598)	422	–	–	–	–	–	–	–	–	(422)	(83,020)	–	(83,020)
Shares issued upon exercise of share options	554	49,234	–	–	–	–	–	–	–	(16,922)	–	–	32,866	–	32,866
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	18,559	–	–	18,559	–	18,559
Recognition of equity-settled share-based payments granted by subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	144,254	144,254
Conversion of redeemable convertible preferred shares	–	–	–	408,261	–	–	–	–	–	–	–	–	408,261	188,614	596,875
Contributions from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	4,484	4,484
Final dividend for 2012 paid	–	–	–	–	–	–	(81,947)	–	–	–	–	(391)	(82,338)	–	(82,338)
Interim dividend for 2013 declared and paid	–	–	–	–	–	–	–	–	–	–	–	(81,329)	(81,329)	–	(81,329)
Special dividend declared and paid	–	–	–	–	–	–	–	–	–	–	–	(3,130,303)	(3,130,303)	–	(3,130,303)
Final dividend for 2013 proposed	–	–	–	–	–	–	79,977	–	–	–	–	(79,977)	–	–	–
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(136,316)	(136,316)
Acquisition of additional equity interests from non-controlling shareholders of a subsidiary	–	–	–	(1,049)	–	–	–	–	–	–	–	–	(1,049)	1,049	–
Awarded shares vested to employees	–	–	–	–	–	–	–	–	1,445	(2,846)	–	1,401	–	–	–
Transfer of reserve upon disposal of subsidiaries	–	–	–	(410,470)	–	(9,391)	–	–	–	–	–	419,861	–	(298,175)	(298,175)
Transfer of reserve upon deregistration of a subsidiary	–	–	–	1,049	–	–	–	–	–	–	–	(1,049)	–	–	–
Transfers	–	–	–	–	–	39,381	–	–	–	–	–	(39,381)	–	–	–
	132	(33,364)	422	(2,209)	–	29,990	(1,970)	–	1,445	(1,209)	–	(2,911,590)	(2,918,353)	(96,090)	(3,014,443)
At 31 December 2013	37,664	1,036,480	4,139	–	10,045	202,885	79,977	673	(5,780)	29,777	(59,309)	3,278,591	4,615,142	7,736	4,622,878

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, conversion of redeemable convertible preference shares and acquisition of additional equity interests from non-controlling interests.

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 each 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 2013

	NOTE	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES			
Profit for the year		**6,222,448**	38,961
Adjustments for:			
Taxation		**653,709**	74,936
Allowances on trade receivables		**2,460**	2,639
Amortisation of intangible assets		**1,510**	4,478
Depreciation of property, plant and equipment		**48,867**	26,292
Finance costs		**15,526**	28,417
Gain on disposal of prepaid lease payments		**(382)**	–
Gain on disposal of held for trading investments		**(229)**	–
Gain on disposal of available-for-sale investment		**(5,761)**	–
Gain on deemed disposal of an associate		**–**	(80)
Gain on disposal of an associate		**(100)**	–
Gain on disposal of subsidiaries before taxation	44	**(6,309,358)**	–
Gain on fair value changes of investment property		**–**	(407)
(Gain) loss on disposal of property, plant and equipment		**(88)**	76
Impairment loss recognised in respect of interests in associates		**3,008**	–
Interest income		**(31,210)**	(39,749)
Loss on partial disposal of a subsidiary		**–**	132
Net (gain) loss on derivative financial instruments		**(27,223)**	282,424
Net (gain) loss on held for trading investments		**(8,756)**	61
Release of prepaid lease payments		**1,753**	1,460
Share-based payments expense		**141,182**	34,733
Share of losses of associates		**953**	1,456
Share of (profit) loss of a joint venture		**(796)**	1,391
Write-off of intangible assets		**1,074**	2,156
Operating cash flows before movements in working capital		**708,587**	459,376
Increase in trade receivables		**(83,800)**	(22,511)
Increase in other receivables, prepayments and deposits		**(10,838)**	(11,009)
Increase in amounts due from related companies		**(927)**	(2,437)
Increase in trade and other payables		**198,192**	18,639
Increase (decrease) in deferred income		**6,579**	(750)
Increase (decrease) in amount due to a related company		**1,015**	(844)
Cash generated from operations		**818,808**	440,464
Interest paid		**(7,563)**	(69)
Income tax paid		**(90,287)**	(46,821)
NET CASH FROM OPERATING ACTIVITIES		**720,958**	393,574

	NOTES	2013 RMB'000	2012 RMB'000
INVESTING ACTIVITIES			
Interest received		**25,722**	35,374
Acquisition of a subsidiary	37	**–**	2,556
Acquisition of an associate		**–**	(500)
Investment in a joint venture		**–**	(19,406)
Purchase of held for trading investments		**–**	(5,000)
Acquisitions of available-for-sale investments		**(6,218)**	(1,000)
Proceeds from disposal of property, plant and equipment		**3,005**	80
Proceeds from disposal of prepaid lease payments		**13,074**	–
Proceeds received from disposal of subsidiaries	44	**5,614,169**	–
Proceeds from disposal of an associate		**175**	–
Proceeds from return of capital from an associate		**5,600**	–
Proceeds from disposal of held for trading investments		**5,168**	–
Deposits paid for acquisition of property, plant and equipment		**(16,769)**	–
Placement of bank deposits		**(3,071,754)**	(404,081)
Placement of pledged bank deposit		**(108,268)**	(194,405)
Withdrawal of bank deposits		**389,987**	50,000
Withdrawal of pledged bank deposit		**182,149**	–
Advance of loan receivables		**(7,170)**	(9,682)
Repayment of loan receivables		**3,421**	3,970
Repayment of (advanced to) a joint venture		**3,405**	(3,060)
Purchase of prepaid lease payments		**(60,267)**	(36,908)
Purchase of property, plant and equipment		**(245,455)**	(137,358)
Purchase of intangible assets		**–**	(4,733)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**2,729,974**	(724,153)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
FINANCING ACTIVITIES		
(Repayment to) advanced from an associate	**(5,600)**	5,600
Contribution from non-controlling shareholders	**4,484**	671
Contribution from an associate to a subsidiary of the Group	**858**	—
Proceeds from issue of redeemable convertible preferred shares	**109,888**	13,395
Proceeds from shares issued upon exercise of share options	**32,866**	1,339
Dividends paid	**(3,293,970)**	(112,989)
New bank borrowing raised	**110,036**	183,595
Repayment of bank borrowing	**(179,660)**	—
Payment for repurchase of shares	**(83,020)**	(45,773)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(3,304,118)**	45,838
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**146,814**	(284,741)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,142,825**	1,428,928
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**14,716**	(1,362)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**1,304,355**	1,142,825

1. GENERAL

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

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

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")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in current year.

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

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

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

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

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

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

HKFRS 11 Joint Arrangement

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

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

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

HKFRS 11 Joint Arrangement (Cont'd)

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

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 18 and 19 for details).

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply 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 for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements. HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see notes 16 and 41 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised 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 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HK(IFRIC) - Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

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

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2010-2012 Cycle* will have a material effect on the Group's consolidated financial statements.

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

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors do not anticipate that the application of the amendments included in the *Annual Improvements to HKFRSs 2011-2013 Cycle* will have a material effect on the Group's consolidated financial statements.

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 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Company do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial statements.

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 at the end of each reporting period, 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special propose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 amount 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)

Basis of consolidation (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries (Cont'd)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets, and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. 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. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures 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, an investment in an associate or a joint venture is 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 associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates and joint ventures (Cont'd)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 or a joint venture. 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 of disposal) 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.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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 which 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 owners' 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).

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 assets (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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 property 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.

Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its assets with finite useful lives 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

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 immediately in profit or loss.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

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 on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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 period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised 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. Transaction costs 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified 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 stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other income and gains'. Fair value is determined in the manner described in note 26.

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 joint venture, 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 as available-for-sale 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 and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

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 amount of the impairment loss recognised is 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 (see the accounting policy below).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

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.

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.

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, amount due to a related company, amount due to an associate and secured bank borrowing are subsequently measured at amortised cost, using the effective interest method.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Redeemable convertible preferred shares (Cont'd)

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.

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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and 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.

When share options are exercised, the amount previously recognised in share options 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 share options 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.

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 profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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 joint arrangements, 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.

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.

Current and deferred tax is recognised in profit or loss, except when they relate 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business less accumulated impairment losses, if any 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. 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.

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 accounting policies

The following are the critical judgements, apart from those involving estimation (see below), that the directors have made in the process of applying the Group'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 BoRui Websoft Technology Ltd. ("Fujian BoRui"). Nevertheless, under the contractual agreements entered into between the Group, NetDragon (Fujian) and the Ultimate Controlling Shareholders who are the registered owners of NetDragon (Fujian), 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 BoRui so as to obtain benefits from their activities. As such, NetDragon (Fujian), NetDragon (Shanghai) and Fujian BoRui are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB1,084,345,000 (2012: RMB901,899,000) for the year ended 31 December 2013. At 31 December 2013, total assets and total liabilities of these entities amounted to approximately RMB595,728,000 (2012: RMB261,967,000) and RMB266,382,000 (2012: RMB331,828,000).

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

Critical judgements in applying the accounting policies (Cont'd)

Deferred taxation on investment property

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment property 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 property is 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 property, the directors have determined that the presumption that the carrying amount of investment property 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 property as the Group is not subject to any income taxes on disposal of its investment property.

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.

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

Continuing operations	2013 RMB'000	2012 (Restated) RMB'000
Revenue		
Online game revenue	**884,518**	825,744
Other income and gains		
Gain on fair value changes of investment property	**–**	407
Government grants (Note)	**16,101**	10,615
Interest income	**23,329**	33,801
Gain on disposal of held for trading investment	**229**	–
Gain on disposal of property, plant and equipment	**147**	–
Net gain on disposal of prepaid lease payments	**382**	–
Gain on disposal of an associate	**100**	–
Rental income, net of negligible outgoing expenses	**505**	448
Others	**4,187**	3,638
	44,980	48,909

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.

6. FINANCE COSTS

	2013	2012 (Restated)
Continuing operations	**RMB'000**	RMB'000
Interest on:		
Bank borrowing wholly repayable within five years	**4,651**	4,276

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. The Group has only one operating segment (i.e. online game development and operation and marketing of those online games) from its continuing operations.

During the year, the Group's mobile Internet business segment has been classified as discontinued operations upon the disposal of 91 Wireless Websoft Limited and its subsidiaries ("91 Group"), which is described in more details in note 44. Accordingly, the comparative information has been represented to present the results of the mobile Internet business as discontinued operations to conform with the current year's presentation.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

	2013	2012 (Restated)
	RMB'000	RMB'000
Segment revenue	**884,518**	825,744
Segment profit	**446,352**	396,494
Unallocated income and gains	**25,114**	31,038
Unallocated expenses	**(254,779)**	(94,792)
Share of losses of associates	**(16)**	(544)
Profit before taxation	**216,671**	332,196

The accounting policies of the operating segment are the same as the Group's accounting policies. Segment profit represents the profit earned by the segment whereby certain items are not included in arriving at the segment result of the operating segment (including share-based payments expense, share of losses of associates, net loss on other financial liability, 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.

7. SEGMENT INFORMATION (Cont'd)

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

	2013 RMB'000	2012 RMB'000
Assets relating to continuing operations:		
– online game	**5,129,373**	1,750,584
– mobile Internet business	**–**	420,259
	5,129,373	2,170,843
Unallocated	**320,616**	274,510
	5,449,989	2,445,353

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 joint venture, available-for-sale investments, loan receivables, certain bank deposits and bank balances and cash. No analysis of the Group's liabilities by operating segments is disclosed as they are not regularly provided to the CODM for review.

Geographical information

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

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

	2013 RMB'000	2012 (Restated) RMB'000
PRC	**781,442**	717,048
United States of America ("USA")	**97,115**	104,992
Others	**5,961**	3,704
	884,518	825,744

7. SEGMENT INFORMATION (Cont'd)

Geographical information (Cont'd)

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

	2013	2012
	RMB'000	RMB'000
PRC	**671,042**	509,361
Hong Kong	**93,700**	36,810
USA	**88**	107
	764,830	546,278

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2013 and 2012.

8. TAXATION

	2013	2012
		(Restated)
Continuing operations	**RMB'000**	RMB'000
The tax charge from continuing operation comprises:		
Hong Kong Profits Tax	**5,983**	1,995
The PRC Enterprise Income Tax ("EIT")		
– Current year	**38,858**	32,000
– Withholding tax	**12,000**	16,110
– Overprovision in prior year	**(6,811)**	–
	44,047	48,110
Taxation in other jurisdiction	**234**	251
	50,264	50,356

8. TAXATION (Cont'd)

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

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

Fujian TQ Digital Inc. ("TQ Digital") is a wholly foreign-invested enterprise and was approved to be a hi-tech enterprise located in high technology development zone on 10 September 2009. Pursuant to the Circular on Some Preferential Policies for the EIT (關於實施高新技術企業所得稅優惠有關問題的通知) issued by the State Administration of Taxation ("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, TQ Digital continued to be recognised as a hi-tech enterprise for the year ended 31 December 2012 and was subjected to income tax rate at 15%.

Pursuant to the jointly approval by National Development and Reform Commission (中華人民共和國國家發展和改革委員會), the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), the Ministry of Finance of the PRC ("MOF") (中華人民共和國財政部), the Ministry of Commerce of the PRC (中華人民共和國商務部) and the SAT (國家稅務總局), TQ Digital has been recognised as a key software enterprise on 22 December 2013 under the SAT under the National Plan (國家規劃布局). According to the Circular on Enterprise Income Tax Policy to Further Encouraging the Development of Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》) issued by the MOF, key software enterprises (重點軟件企業) which have not yet enjoyed tax free concessions for the relevant financial years will be subject to EIT at the reduced rate of 10%. Therefore, TQ Digital is entitled to preferential EIT rate of 10% for the year ended 31 December 2013.

Under the Law of PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of NetDragon (Fujian) is 25%.

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. However, the tax concessions previously granted to TQ Online has expired. Pursuant to the EIT Law, TQ Online is subject to income tax rate at 25% for the year ended 31 December 2013.

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 2013, the USA income tax rates applicable to NetDragon Websoft Inc. are 34% (2012: 34%) for federal tax and 8.84% (2012: 8.84%) for state income tax.

8. TAXATION (Cont'd)

The tax charge for the year is reconciled to the profit before taxation from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013	2012
		(Restated)
	RMB'000	RMB'000
Profit before taxation from continuing operations	216,671	332,196
Tax at the applicable tax rate of 25% (2012: 25%) (Note a)	54,168	83,049
Tax effect of share of losses of associates	4	136
Tax effect of income not taxable for tax purpose	(19,058)	(7,306)
Tax effect of expenses not deductible for tax purpose	69,275	18,461
Tax effect of temporary difference not recognised	2,969	(2,775)
Utilisation of tax losses previously not recognised	(883)	(21,125)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,979)	(746)
Additional tax benefit on development expenses (Note b)	(4,876)	(4,008)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	(53,602)	(31,082)
Withholding tax on undistributed earnings of the PRC subsidiaries	12,000	16,110
Overprovision in prior years	(6,811)	—
Others	57	(358)
Tax charge for the year (relating to continuing operations)	50,264	50,356

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 2013 and 2012.

b. Pursuant to the relevant tax rules and regulations, the Group can obtain additional tax benefit, which is equivalent to 15% of the staff costs 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 24.

9. DISCONTINUED OPERATIONS

On 14 August 2013, NetDragon Websoft Inc. ("NetDragon BVI"), a wholly owned subsidiary of the Company, and Baidu Holdings Limited ("Baidu"), an independent third party, entered into a sale and purchase agreement ("S&P Agreement") pursuant to which NetDragon BVI has conditionally agreed to sell, and Baidu has conditionally agreed to purchase the entire equity interest of 91 Group (the "Disposal"). The Disposal was completed on 1 October 2013.

The profit (loss) for the year from the discontinued operations is analysed below. The comparative figures in the statement of profit or loss and other comprehensive income have been restated to present the mobile Internet business as discontinued operations.

	2013	2012
	RMB'000	RMB'000
Profit (loss) for the year from discontinued operations		
Attributable to:		
– Owners of the Company	**164,461**	(242,853)
– Non-controlling interests	**79,617**	(26)
	244,078	(242,879)
Gain on disposal of subsidiaries, net of related income tax (Note 44)	**5,811,963**	–
Profit (loss) for the year	**6,056,041**	(242,879)

9. DISCONTINUED OPERATIONS (Cont'd)

The results of the mobile Internet business which was carried out by 91 Group before the date of completion of the Disposal, which have been included in the consolidated statement of profit or loss and other comprehensive income of the Group, were as follows:

	2013 RMB'000	2012 RMB'000
Revenue	**608,188**	282,605
Cost of revenue	**(78,212)**	(61,955)
Gross profit	**529,976**	220,650
Other income and gains	**6,976**	1,116
Selling and marketing expenses	**(61,604)**	(38,618)
Administrative expenses	**(74,989)**	(41,491)
Development costs	**(57,873)**	(57,965)
Other expenses	**(15,179)**	(4,904)
Share of losses of associates	**(937)**	(912)
Share of profit (loss) of a joint venture	**796**	(1,391)
Operating profit	**327,166**	76,485
Exchange gain on redeemable convertible preferred shares	**1,133**	1,102
Net gain (loss) on derivative financial instruments of redeemable convertible preferred shares	**32,704**	(271,745)
Finance costs	**(10,875)**	(24,141)
Profit (loss) before taxation	**350,128**	(218,299)
Taxation	**(106,050)**	(24,580)
Profit (loss) for the year from discontinued operations	**244,078**	(242,879)

9. DISCONTINUED OPERATIONS (Cont'd)

Profit (loss) for the year from discontinued operations includes the following:

	2013 RMB'000	2012 RMB'000
Staff costs:		
Directors' emoluments	**9,076**	3,233
Other staff costs		
Salaries and other benefits	**60,372**	69,107
Contributions to retirement benefits schemes	**18,557**	9,943
Share-based payments expense	**29,429**	9,452
	117,434	91,735
Auditor's remuneration		
– audit services	**–**	–
– non-audit services	**2,585**	4,067
Allowances on trade receivables	**2,304**	–
Advertising and promotion expenses (included in selling and marketing expenses)	**17,385**	12,830
Impairment loss recognised in respect of interests in associates	**3,008**	–
Depreciation of property, plant and equipment	**1,559**	909
Gain on disposal of subsidiaries before taxation (Note 44)	**6,309,358**	–
Operating lease rentals in respect of		
– rented premises	**4,292**	2,164
– computer equipment	**26,829**	26,890
Net foreign exchange loss (gain)	**6,989**	(2,135)
Loss (gain) on disposal of property, plant and equipment	**59**	(60)
Interest income	**(2,998)**	(1,099)

During the year, the discontinued operations contributed RMB410,566,000 to the Group's operating cash inflows, RMB104,571,000 in respect of cash inflows of investing activities and RMB267,747,000 in respect of cash inflows of financing activities up to the effective date of the Disposal.

The carrying amounts of the assets and liabilities of the subsidiaries comprising the discontinued operations at the date of the Disposal are disclosed in note 44.

10. PROFIT FOR THE YEAR

	2013	2012 (Restated)
	RMB'000	RMB'000
Profit for the year from continuing operations has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	8,250	5,770
Other staff costs		
Salaries and other benefits	251,967	217,320
Contributions to retirement benefits schemes	23,049	19,714
Share-based payments expense	96,554	19,034
	379,820	261,838
Auditor's remuneration		
– audit services	1,181	1,123
– non-audit services	3,419	1,691
	4,600	2,814
Amortisation of intangible assets (included in cost of revenue)	1,510	3,171
Amortisation of intangible assets (included in other expenses)	–	1,307
Release of prepaid lease payments (included in administrative expenses)	1,753	1,460
Depreciation of property, plant and equipment	47,308	25,383
Total depreciation and amortisation	50,571	31,321
Advertising and promotion expenses (included in selling and marketing expenses)	49,824	63,201
Allowances on trade receivables	156	2,639
Gain on deemed disposal of an associate	–	(80)
Loss on partial disposal of a subsidiary	–	132
Operating lease rentals in respect of		
– rented premises	10,133	16,604
– computer equipment	33,090	33,942
Net foreign exchange loss (gain)	28,607	(7,168)
Write-off of intangible assets (included in other expenses)	1,074	2,156
Loss on disposal of property, plant and equipment	–	136

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the eight (2012: eight) directors of the Company were as follows:

	2013				
	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	–	586	–	5,764	6,350
Mr. Liu Luyuan	–	555	14	1,257	1,826
Mr. Zheng Hui	–	156	14	102	272
Mr. Chen Hongzhan	–	591	14	5,768	6,373
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Chao Guowei, Charles	366	–	–	469	835
Mr. Lee Kwan Hung	366	–	–	469	835
Mr. Liu Sai Keung, Thomas	366	–	–	469	835
	1,098	1,888	42	14,298	17,326

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

Directors' emoluments (Cont'd)

	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

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.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

Employees' emoluments

Of the five highest emoluments in the Group, none (2012: one) of them was executive director of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining five individuals (2012: four) were as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other benefits	5,995	9,851
Contribution to retirement benefits schemes	78	49
Share-based payments expenses	56,244	5,346
	62,317	15,246

Their emoluments were within the following bands:

	2013 Number of employees	2012 Number of employees
HKD3,000,001 to HKD3,500,000	–	3
HKD5,000,001 to HKD5,500,000	–	1
HKD12,500,001 to HKD13,000,000	1	–
HKD14,000,001 to HKD14,500,000	1	–
HKD15,500,001 to HKD16,000,000	1	–
HKD16,000,001 to HKD16,500,000	1	–
HKD19,000,001 to HKD19,500,000	1	–
	5	4

During the year ended 31 December 2013, 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 2013 (2012: Nil).

12. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Dividends recognised as distribution during the year:		
2013 Interim — HKD0.20 (2012: 2012 Interim dividend of HKD0.15) per share	**81,329**	62,927
2012 Final — HKD0.20 (2012: 2011 Final dividend of HKD0.12) per share	**82,338**	50,062
2013 Special dividend — HKD7.77 (2012: Nil) per share	**3,130,303**	—
	3,293,970	112,989

The final dividend of HKD0.20 (2012: HKD0.20) per share which has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting, amounted to approximately RMB79,977,000 (2012: RMB81,947,000).

13. EARNINGS PER SHARE

From continuing and discontinued operations

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

	2013 RMB'000	2012 RMB'000
Earnings for the purposes of basic earnings per share:		
– profit for the year attributable to the owners of the Company	**6,140,776**	39,176
Effect of dilutive potential ordinary shares:		
– adjustment to the share of profit of subsidiaries based on dilution of their earnings per share (Note)	**(26,009)**	—
Earnings for the purpose of diluted earnings per share	**6,114,767**	39,176

13. EARNINGS PER SHARE (Cont'd)

From continuing and discontinued operations (Cont'd)

	Number of shares	
	2013	2012
	'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)	**506,063**	508,196
Effect of dilutive potential shares from the Company's share option scheme	**11,656**	7,044
Number of shares for the purpose of calculating diluted earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**517,719**	515,240

Note: The computation of diluted earnings per share for the year ended 31 December 2012 had not taken into account the effect of share awards and redeemable convertible preferred shares issued by 91 Wireless Websoft Limited since it was anti-dilutive.

From continuing operations

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

	2013	2012
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to the owners of the Company	**6,140,776**	39,176
Less: profit (loss) for the year from discontinued operations attributable to the owners of the Company	**5,976,424**	(242,853)
Earnings for the purposes of calculating basic and diluted earnings per share from continuing operations	**164,352**	282,029

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

13. EARNINGS PER SHARE (Cont'd)

From discontinued operations

The basic and diluted earnings (loss) per share from discontinued operations attributable to the owners of the Company are as follows:

	2013 RMB cents	2012 RMB cents
Earnings (loss) per share		
– Basic	**1,180.96**	(47.79)
– Diluted	**1,149.35**	(47.79)

Basic and diluted earnings per share from discontinued operations for the year ended 31 December 2013 are calculated based on the profit attributable to the owners of the Company from discontinued operations of approximately RMB5,976,424,000 and the denominators detailed above for both basic and diluted earnings per share from continuing operations.

Basic and diluted loss per share from discontinued operations for the year ended 31 December 2012 are calculated based on the loss attributable to the owners of the Company from discontinued operations of approximately RMB242,853,000 and the denominators detailed above for both basic and diluted earnings per share from continuing operations. The diluted loss per share for the year ended 31 December 2012 had not taken into account the effect of share options and unvested treasury shares as it would result in decrease in loss per share from discontinued operations.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Computer and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2012	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 on 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
Exchange adjustments	(581)	(15)	(23)	–	–	(619)
Additions	–	8,563	48,285	11,189	177,418	245,455
Disposals	(611)	(2,037)	(7,543)	(815)	–	(11,006)
Disposal of subsidiaries	–	–	(19,456)	(564)	–	(20,020)
At 31 December 2013	23,130	120,127	241,403	23,563	351,650	759,873
DEPRECIATION						
At 1 January 2012	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
Exchange adjustments	(52)	(10)	(13)	–	–	(75)
Provided for the year	725	18,278	26,970	2,894	–	48,867
Eliminated on disposals	(169)	(2,037)	(5,721)	(162)	–	(8,089)
Eliminated on disposal of subsidiaries	–	–	(14,074)	(88)	–	(14,162)
At 31 December 2013	3,274	47,240	166,910	9,765	–	227,189
CARRYING VALUES						
At 31 December 2013	19,856	72,887	74,493	13,798	351,650	532,684
At 31 December 2012	21,552	82,607	60,392	6,632	174,232	345,415

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

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%

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

	2013	2012
	RMB'000	RMB'000
In Hong Kong:		
Long lease	**16,642**	17,654
In the PRC other than in Hong Kong:		
Medium-term lease	**3,214**	3,898
	19,856	21,552

15. PREPAID LEASE PAYMENTS

	2013	2012
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**2,583**	2,902
Non-current assets	**185,819**	139,678
	188,402	142,580

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 RMB64,528,000 (2012: RMB55,958,000) which the Group is in the process of obtaining the land use right certificates.

16. INVESTMENT PROPERTY

	RMB'000
Fair value	
At 1 January 2012	15,809
Exchange adjustments	1
Net increase in fair value recognised	407
At 31 December 2012 and 1 January 2013	16,217
Exchange adjustments	(492)
At 31 December 2013	15,725

	2013	2012
	RMB'000	RMB'000
Unrealised gain on property revaluation included in other income and gains	**–**	407

The fair values of the Group's investment property, including both land and building elements, as at 31 December 2013 and 31 December 2012 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, independent qualified professional valuers 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 the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. There has been no change from the valuation technique used in the prior year.

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.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment property and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 3	**Fair value**
	RMB'000	RMB'000
Commercial property unit located in Hong Kong	15,725	15,725

There were no transfers into or out of Level 3 during the year.

17. INTANGIBLE ASSETS

	Film rights	Trademark	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2012	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
Exchange adjustments	—	(665)	(665)
Written off	—	(2,975)	(2,975)
At 31 December 2013	6,700	20,189	26,889
AMORTISATION			
At 1 January 2012	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
Exchange adjustments	—	(623)	(623)
Provide for the year	—	1,510	1,510
Written off	—	(1,901)	(1,901)
At 31 December 2013	6,700	20,189	26,889
CARRYING VALUES			
At 31 December 2013	—	—	—
At 31 December 2012	—	2,626	2,626

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

	2013 RMB'000	2012 RMB'000
Unlisted investments outside Hong Kong:		
Cost of investments	**2,580**	13,830
Share of post-acquisition losses	**(423)**	(2,037)
Contribution to a subsidiary of the Group	**(858)**	–
	1,299	11,793

As at 31 December 2013 and 2012, the Group had interests in the following associates:

Name of entities	Percentage of registered capital directly held by the Group 2013	Percentage of registered capital directly held by the Group 2012	Country of establishment/ operation	Registered capital	Principal activities
廈門易用軟件技術有限公司 (廈門易用) (Note a)	**42.9%**	42.9%	PRC	RMB3,500,000	Provision of business management software application development
上海博股信息科技有限公司 (上海博股) (Note b)	**–**	35%	PRC	RMB5,000,000	Provision of software for stock information enquires
濟南四葉草信息技術有限公司 (濟南四葉草) (Note a)	**–**	12%	PRC	RMB579,600	Provision of software application development and maintenance
北京九康益電子商務有限公司 (北京九康益) (Note c)	**–**	40%	PRC	RMB1,000,000	Provision for sales of health food through mobile internet
北京米酷倍顯軟件科技有限公司 (北京米酷) (Note b)	**–**	50%	PRC	RMB1,000,000	Provision of software application development and maintenance

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 was classified as an associate of the Group. However, upon the Disposal as detailed in note 9, the Group does not hold any shareholding interests in 濟南四葉草 as at 31 December 2013.

b. 上海博股 and 北京米酷 were established during the year ended 31 December 2011 and 2012, respectively. The Group held 50% of equity interest of 北京米酷 and has a right to appoint one director out of three directors in the board of 北京米酷. Therefore, 北京米酷 is classified as an associate of the Group. However, upon the Disposal as detailed in note 9, the Group does not hold any equity interest in 北京米酷 and 上海博股 as at 31 December 2013.

c. The Group disposed the entire equity interest of 北京九康益 at a total consideration of approximately RMB175,000 during the year ended 31 December 2013.

Summarised financial information of material associate is set out below:

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All the associates are accounted for using the equity method in these consolidated financial statements.

廈門易用

	2013 **RMB'000**	2012 RMB'000
Current assets	**504**	2,511
Non-current assets	**2,034**	35
Current liabilities	**14**	26
Revenue	**873**	465
Profit (loss) for the year	**4**	(510)

18. INTERESTS IN ASSOCIATES (Cont'd)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of 廈門易用	**2,524**	2,520
Proportion of the Group's ownership interest in the 廈門易用	**42.9%**	42.9%
Goodwill	**1,141**	1,141
Contribution to a subsidiary of the Group	**(858)**	—
Others	**(67)**	(67)
Carrying amount of the Group's interest in 廈門易用	**1,299**	2,155

Aggregate information of associates that are not individually material

	2013 RMB'000	2012 RMB'000
The Group's share of loss from continuing operations	**(18)**	(291)
The Group's share of post-tax loss from discontinued operations	**(937)**	(912)
Aggregate carrying amount of the Group's interests in these associates	**–**	9,638

In the prior year, the Group held a 40% interest in 北京九康益 and accounted for the investment as an associate. In November 2013, the Group disposed the entire equity interest in 北京九康益 to a third party for proceeds of approximately RMB175,000. This transaction has resulted in the recognition of a gain in profit or loss, calculated as follows:

	2013 RMB'000
Proceeds from disposal	**175**
Less: carrying amount of 北京九康益 on the date of loss of significant influence	**(75)**
Gain recognised	**100**

19. INTEREST IN A JOINT VENTURE

	2013 RMB'000	2012 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 2013 and 2012, the Group had interest in the following joint venture:

Name of entity	Percentage of registered capital directly held by the Group 2013	2012	Country of establishment/ operation	Registered capital	Principal activities
江蘇博得網絡科技有限公司 ("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. However, upon the Disposal as detailed in note 9, the Group does not hold any equity interest in Jiangsu BoDe as at 31 December 2013.

The summarised financial information in respect of the Group's interest in a joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

19. INTEREST IN A JOINT VENTURE (Cont'd)

	2013 RMB'000	2012 RMB'000
Current assets	–	38,985
Non-current assets	–	11
Current liabilities	–	3,672
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	–	37,890
Current financial liabilities (excluding trade and other payables and provision)	–	3,615

	2013 RMB'000	2012 RMB'000
Revenue	11,389	1,426
Profit (loss) for the year	1,560	(2,727)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Jiangsu BoDe recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of Jiangsu BoDe	–	35,324
Proportion of the Group's ownership interest in the Jiangsu BoDe	–	51%
Carrying amount of the Group's interest in Jiangsu BoDe	–	18,015

20. AVAILABLE-FOR-SALE INVESTMENTS

	2013 RMB'000	2012 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
– 青島信通物聯網絡有限公司 (Note b)	**1,000**	1,000
	5,000	5,000

Notes:

a. Being unlisted equity investment representing 9.5% equity 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 the PRC. During 2012, the Group has invested RMB1,000,000 in this entity which represents 10% of equity interest 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

	2013 RMB'000	2012 RMB'000
Fixed-rate loan receivables	**16,754**	13,112
Analysed as:		
Current	**713**	3,143
Non-current	**16,041**	9,969
	16,754	13,112

21. LOAN RECEIVABLES (Cont'd)

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

	2013	2012
Effective interest rate:		
Fixed-rate loan receivables (per annum)	3.91%	4.64%

Included in loan receivables, RMB9,104,000 (2012: RMB13,112,000) represents loans to certain key management and senior staffs. Loan receivables are not past due or impaired at the end of reporting period. The loans are either repayable by instalments until 2014, 2015, 2016 or 2040 or repayable in whole in 2017. The Group does not hold any collateral over this balance.

22. OTHER RECEIVABLE

Other receivable represents the partial consideration of USD10,000,000 arising from the disposal of 91 Group, which was held by the independent escrow agent at the end of the reporting period. Pursuant to the terms and conditions set out in the S&P Agreement as detailed in note 9, the amount is repayable at the expiry of eighteen months from the date of the Disposal, 1 October 2013. The Group does not hold any collateral over this balance.

23. GOODWILL

The carrying amounts of goodwill as at 31 December 2013 and 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 comprise the subsidiary acquired in 2012, 福州軟件職業技術學院 (note 37). During the year ended 31 December 2013 and 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.

24. DEFERRED TAXATION

The deferred tax assets and liabilities are presented in the consolidated statement of financial position as below:

	2013 RMB'000	2012 RMB'000
Deferred tax assets	54	1,586
Deferred tax liabilities	–	(6,141)
	54	(4,555)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Undistributable profits of subsidiaries RMB'000	Development costs and accrued expenses RMB'000	Total RMB'000
At 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)
(Charged) credited to profit or loss	(21,554)	6,836	(14,718)
Eliminated on disposal of subsidiaries (Note 44)	27,695	(8,368)	19,327
At 31 December 2013	–	54	54

At the end of the reporting period, the Group has temporary differences associated with undistributed earnings of PRC subsidiaries of RMB1,093,871,000 (2012: RMB206,394,000). Deferred tax liabilities has been recognised in respect of undistributed earnings of RMB215,537,000 (2012: RMB68,238,000). However, upon the Disposal as detailed in note 9, undistributed earnings of PRC subsidiaries of RMB215,537,000 was reversed. No deferred tax liability has been recognised for the remaining undistributed earnings of RMB1,093,871,000 (2012: RMB138,156,000) 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 RMB19,559,000 (2012: RMB94,059,000) 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 are losses of approximately RMB19,559,000 (2012: RMB93,297,000) that will expire within five years from the end of the reporting period.

25. TRADE RECEIVABLES

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

	2013 RMB'000	2012 RMB'000
0 - 30 days	**22,806**	38,519
31 - 60 days	**5,088**	12,753
61 - 90 days	**10,211**	4,252
Over 90 days	**3,613**	5,903
	41,718	61,427

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 RMB9,052,000 (2012: RMB9,088,000) 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

	2013 RMB'000	2012 RMB'000
31 - 60 days	**4,969**	2,506
61 - 90 days	**470**	679
Over 90 days	**3,613**	5,903
Total	**9,052**	9,088

25. TRADE RECEIVABLES (Cont'd)

Movement in the allowance for doubtful debts

	2013 RMB'000	2012 RMB'000
At beginning of year	3,120	490
Allowances recognised on receivables	2,460	2,639
Amount written off as uncollectible	(156)	—
Eliminated on disposal of subsidiaries	(2,304)	—
Exchange differences	(95)	(9)
At end of year	3,025	3,120

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB3,025,000 (2012: RMB3,120,000) of which the debtors have been in dispute with the Group.

26. HELD FOR TRADING INVESTMENTS

	2013 RMB'000	2012 RMB'000
Listed securities:		
– Equity securities listed in the PRC	–	4,939
– Equity securities listed in USA	20,735	—
	20,735	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 and National Association of Securities Dealers Automated Quotations (NASDAQ) Stock Exchange.

27. 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 2013 RMB'000	Balance at 31 December 2012 RMB'000	Maximum amount outstanding during the year 2013 RMB'000	Maximum amount outstanding during the year 2012 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	2,860	1,933	2,860	3,142
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	1,704	4,667	2,130
		4,564	3,637		

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 in aggregate own 100% equity interest in this entity as of 31 December 2013.

28. AMOUNT DUE FROM A JOINT VENTURE

The amount was unsecured, non-interest bearing and was fully settled during the year.

29. 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% (2012: 0.001% to 3.5%) per annum.

Pledged bank deposit represents deposit pledged to bank to secure bank borrowing granted to the Group as mentioned in note 32. Deposit is denominated in USD (2012: EURO) which carries interest at 3.07% per annum (2012: 4.51%).

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:

	2013	2012
	RMB'000	RMB'000
HKD	**59,763**	251,065
USD	**2,929,344**	287,020
EURO	**4,817**	194,405

30. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	RMB'000
Trade payables	**6,050**	13,679
Accrual staff costs	**70,214**	69,213
Cooperation fee payable	**–**	48,791
Receipt in advance	**20,065**	20,717
Other payables and accruals	**56,508**	69,737
	152,837	222,137

30. TRADE AND OTHER PAYABLES (Cont'd)

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

	2013	2012
	RMB'000	RMB'000
0 - 90 days	**2,576**	11,484
91 - 180 days	**3,121**	1,330
181 - 365 days	**61**	44
Over 365 days	**292**	821
	6,050	13,679

31. AMOUNT DUE TO A RELATED COMPANY/AN ASSOCIATE

The amounts were unsecured, non-interest bearing and were fully repaid during the year.

32. SECURED BANK BORROWING

In the current year, the Group obtained new bank borrowing amounting to RMB104,672,000. The secured bank borrowing is denominated in Australian dollar ("AUD"), carries fixed interest rate of 3.84% per annum and is repayable on 5 September 2014. The borrowing is secured by the pledged bank deposit of RMB107,368,000 which is denominated in USD.

The secured bank borrowing as at 31 December 2012, which was denominated in HKD at interest rate of 4.14% per annum, was fully repaid on 13 June 2013. The borrowing was secured by the pledged bank deposit which was denominated in EURO and was fully released upon the repayment of bank borrowing.

33. OTHER FINANCIAL LIABILITY

Derivative not under hedge accounting

On 22 November 2013, the Group entered into foreign currency forward contracts with a bank for a period of 1 year in relation to the pledged bank deposit and bank borrowing arrangement as mentioned in note 32.

As at 31 December 2013, the major terms of foreign currency forward contract for sale of USD are as follows:

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

As at 31 December 2013, fair value loss of approximately RMB3,122,000 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.

On 12 June 2012, the Group entered into foreign currency forward contract with a bank for a period of 1 year in relation to the pledged bank deposit and bank borrowing arrangement as mentioned in note 32.

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

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

On 13 June 2013, the foreign currency forward contract was matured and the net loss of approximately RMB2,359,000 was recognised in the profit or loss during the year ended 31 December 2013 (2012: RMB10,679,000).

34. REDEEMABLE CONVERTIBLE PREFERRED SHARES

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

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

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

On 27 March 2013, all the holders of the series A and series B redeemable convertible preferred shares give notice to convert the series A and series B redeemable convertible preferred shares into the 91 Wireless Websoft Limited's ordinary shares. Immediately before the conversion, the fair value of the conversion option and other derivatives component of the redeemable convertible preferred shares was approximately RMB291,407,000. Upon the conversion of the series A and series B redeemable convertible preferred shares, 44,034,528 ordinary shares of 91 Wireless Websoft Limited has been issued to the holders of series A and series B redeemable convertible preferred shares. The percentage of equity interest in 91 Wireless Websoft Limited held by the Group has been decreased from 88.78% to 57.41% upon the conversion.

34. 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.

34. 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.

34. 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 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
At 31 December 2012 and 1 January 2013	195,115	314,829
Exchange realignment	(512)	(616)
Issue of redeemable convertible preferred shares	99,990	9,898
Interest charge	10,875	—
Gain arising on changes of fair value	—	(32,704)
Converted to ordinary shares	(305,468)	(291,407)
At 31 December 2013	—	—

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

34. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Cont'd)

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

Series A redeemable convertible preferred shares

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

Series B redeemable convertible preferred shares

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

Notes:

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

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

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

35. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2012, 31 December 2012 and 31 December 2013	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2012	514,599,860	5,145,999	38,226
Shares issued upon exercise of share options	349,163	3,491	22
Repurchase and cancellation of shares	(9,635,500)	(96,355)	(716)
At 31 December 2012	505,313,523	5,053,135	37,532
Shares issued upon exercise of share options (Note i)	8,981,688	89,817	554
Repurchase and cancellation of shares (Note ii)	(5,685,500)	(56,855)	(422)
At 31 December 2013	508,609,711	5,086,097	37,664

Notes:

(i) During the year ended 31 December 2013, 8,981,688 share options were exercised and as a result of 8,981,688 ordinary shares were issued (2012: 349,163). Approximately RMB554,000 (2012: RMB22,000) and RMB49,234,000 (2012: RMB1,896,000) were recorded as share capital and share premium, respectively.

(ii) During the year ended 31 December 2013, the Company repurchased 5,685,500 (2012: 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 RMB83,020,000 (2012: RMB45,773,000).

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 2013, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 17,170,989 (31 December 2012: 26,022,217), representing 3.38% (31 December 2012: 5.60%) 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 2013
7 December 2009	N/A	7 December 2009 - 6 December 2019	280,000
7 December 2009	7 December 2009 - 6 December 2010	7 December 2010 - 6 December 2019	280,000
7 December 2009	7 December 2009 - 6 December 2011	7 December 2011 - 6 December 2019	280,000
7 December 2009	7 December 2009 - 6 December 2012	7 December 2012 - 6 December 2019	280,000
7 December 2009	7 December 2009 - 6 December 2013	7 December 2013 - 6 December 2019	1,080,000
			2,200,000

Batch 2:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2013
28 April 2011	28 April 2011 - 27 April 2012	28 April 2012 - 27 April 2021	4,767
28 April 2011	28 April 2011 - 27 April 2013	28 April 2013 - 27 April 2021	17,267
28 April 2011	28 April 2011 - 27 April 2014	28 April 2014 - 27 April 2021	2,134,995
28 April 2011	28 April 2011 - 27 April 2015	28 April 2015 - 27 April 2021	2,663,525
28 April 2011	28 April 2011 - 27 April 2016	28 April 2016 - 27 April 2021	3,196,230
			8,016,784

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 2013
22 July 2011	22 July 2011- 27 April 2012	28 April 2012 - 27 April 2021	28,400
22 July 2011	22 July 2011- 21 July 2012	22 July 2012 - 21 July 2021	–
22 July 2011	22 July 2011- 27 April 2013	28 April 2013 - 27 April 2021	42,600
22 July 2011	22 July 2011- 21 July 2013	22 July 2013 - 21 July 2021	6,901
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	412,350
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
			2,127,463

Batch 4:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2013
23 April 2012	23 April 2012 - 22 April 2013	23 April 2013 - 22 April 2022	11,817
23 April 2012	23 April 2012 - 22 April 2014	23 April 2014 - 22 April 2022	564,975
23 April 2012	23 April 2012 - 22 April 2015	23 April 2015 - 22 April 2022	953,300
23 April 2012	23 April 2012 - 22 April 2016	23 April 2016 - 22 April 2022	441,625
23 April 2012	23 April 2012 - 22 April 2017	23 April 2017 - 22 April 2022	529,950
			2,501,667

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 2013
6 July 2012	6 July 2012 - 5 July 2013	6 July 2013 - 5 July 2022	600
6 July 2012	6 July 2012 - 5 July 2014	6 July 2014 - 5 July 2022	97,913
6 July 2012	6 July 2012 - 5 July 2015	6 July 2015 - 5 July 2022	130,550
6 July 2012	6 July 2012 - 5 July 2016	6 July 2016 - 5 July 2022	163,187
6 July 2012	6 July 2012 - 5 July 2017	6 July 2017 - 5 July 2022	195,825
			588,075

Batch 6:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2013
12 September 2012	12 September 2012 - 11 September 2013	12 September 2013 - 11 September 2022	4,250
12 September 2012	12 September 2012 - 11 September 2014	12 September 2014 - 11 September 2022	13,125
12 September 2012	12 September 2012 - 11 September 2015	12 September 2015 - 11 September 2022	17,500
12 September 2012	12 September 2012 - 11 September 2016	12 September 2016 - 11 September 2022	21,875
12 September 2012	12 September 2012 - 11 September 2017	12 September 2017 - 11 September 2022	26,250
			83,000

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

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

Batch 7:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2013
16 January 2013	16 January 2013 - 15 January 2014	16 January 2014 - 15 January 2023	70,000
16 January 2013	16 January 2013 - 15 January 2015	16 January 2015 - 15 January 2023	105,000
16 January 2013	16 January 2013 - 15 January 2016	16 January 2016 - 15 January 2023	140,000
16 January 2013	16 January 2013 - 15 January 2017	16 January 2017 - 15 January 2023	175,000
16 January 2013	16 January 2013 - 15 January 2018	16 January 2018 - 15 January 2023	210,000
			700,000

Batch 8:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2013
4 December 2013	4 December 2013 - 3 December 2014	4 December 2014 - 3 December 2023	238,500
4 December 2013	4 December 2013 - 3 December 2015	4 December 2015 - 3 December 2023	238,500
4 December 2013	4 December 2013 - 3 December 2016	4 December 2016 - 3 December 2023	477,000
			954,000

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 2013:

Option batch	Exercise price HKD	Outstanding at 1 January 2013	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31 December 2013
Batch 1	4.33	6,800,000	–	(4,600,000)	–	2,200,000
Batch 2	4.80	11,867,687	–	(2,721,453)	(1,129,450)	8,016,784
Batch 3	4.60	3,323,780	–	(1,117,317)	(79,000)	2,127,463
Batch 4	5.74	3,178,000	–	(470,243)	(206,090)	2,501,667
Batch 5	6.53	735,250	–	(68,175)	(79,000)	588,075
Batch 6	7.20	117,500	–	(4,500)	(30,000)	83,000
Batch 7	11.16	–	789,500	–	(89,500)	700,000
Batch 8	15.72	–	954,000	–	–	954,000
		26,022,217	1,743,500	(8,981,688)	(1,613,040)	17,170,989
Exercisable at the end of the year 2013						2,316,602
Weighted average exercise price		HKD4.83				HKD5.79

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 fair value of the options granted on 16 January 2013 and 4 December 2013 was approximately RMB2,562,000 and RMB4,794,000. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	4 December 2013	16 January 2013
Closing price of the Company's shares on grant date	HKD15.72	HKD10.98
Exercise price	HKD15.72	HKD11.16
Risk-free interest rate	1.79 - 1.83%	0.627- 0.704%
Expected option life	7.75 - 8.25 years	7.7 - 8.7 years
Expected volatility	43.90%	45.64%
Expected dividend yield	2.54%	2.46%

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

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

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

The Group recognised the total expense of approximately RMB10,162,000 for the year ended 31 December 2013 (2012: RMB12,584,000) in relation to share options granted by the Company.

Upon the Disposal as detailed in note 9, few participants of 91 Group under the Scheme are no longer the staffs of the Group. However, the share options of these participants shall not lapse on the date of the Disposal, but shall continue to have effect under the Scheme. The Group recognised the total expense of approximately RMB186,000 for the year ended 31 December 2013 (2012: Nil) in relation to these share options granted.

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

(ii) Share award scheme by the Company

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.

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

(ii) Share award scheme by the Company (Cont'd)

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

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

The current Performance Conditions proposed by the Committee is that shares will only be vested to the employees after rendering services for certain period. Each employee needs to render the agreed period of 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 RMB8,211,000 for the year ended 31 December 2013 (2012: RMB125,000) in relation to share awards.

Movements in the share awards granted during the year ended 31 December 2013 are as follows:

Name of category of participant	Date of grant	Outstanding at 1 January 2013	Granted during year	Awards vested during year	Outstanding at 31 December 2013
Directors	31 December 2012	591,057	–	(199,188)	391,869
Other employees	31 December 2012	995,943	–	(118,209)	877,734
		1,587,000	–	(317,397)	1,269,603

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, 317,397 share awards vested on 9 February 2013, 317,400 share awards vest on 9 February 2014, 317,400 share awards vest on 9 February 2015, 317,400 share awards vest on 9 February 2016 and the remaining 317,403 share awards vest on 9 February 2017.

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

(ii) Share award scheme by the Company (Cont'd)

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 2012	Aggregate Awards vested and released during the year	Outstanding as at 31 December 2012
Other employees	15 October 2008	79,677	1,507,323	1,587,000

(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.

On 16 September 2013, the management has agreed with the eligible participants who were conferred the rights of the 91 Award on 8 February 2012 and 31 December 2012 to change the vesting period.

The number of shares granted during the current year under 91 Share Award Scheme was 49,675 (31 December 2012: 9,732,550).

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.

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

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

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 WACC 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.

Fair value of the shares awarded at the grant date is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates upon the grant date. The fair value of the shares awarded on 16 September 2013 was approximately RMB4,140,000.

The Group recognised the total expenses of approximately RMB70,748,000 for the year ended 31 December 2013 (2012: RMB22,024,000) in relation to share award issued by a subsidiary of the Company under the 91 Share Award Scheme.

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

(iv) Share awarded by a subsidiary of the Company

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

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

The Group recognised the total expenses of approximately RMB51,160,000 for the year ended 31 December 2013 in relation to the shares awarded on 9 January 2013.

Upon the Disposal with effective from 1 October 2013 as detailed in note 9, certain participants of 91 Group under the Scheme are no longer the employees of the Group and the shares awarded to these participants shall be lapsed. However, the board of directors have approved shares awarded to these employees to continue to have effect as stated in the relevant letters of grant initially issued by a subsidiary of the Company. The Group recognised the total expenses of approximately RMB715,000 for the year ended 31 December 2013 (2012: Nil) in relation to these share awarded.

1,528,625 shares awarded on 9 January 2013 were entitled by the selected employees and released during the year ended 31 December 2013. 4,585,875 shares to be awarded to those selected participants will be released in 2014, 2015 and 2016 totalling RMB21,631,000.

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.

Assets and liabilities recognised at the date of acquisition

	RMB'000
Non-current asset	
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

37. ACQUISITION OF A SUBSIDIARY (Cont'd)

Included in the profit for the year ended 31 December 2012 was the loss of approximately RMB1,003,000 attributable to the additional business generated by Occupation Technology Institute. Revenue for the year ended 31 December 2012 was approximately RMB5,390,000 generated from Occupation Technology Institute.

Had the acquisition been completed on 1 January 2012, total group revenue for the year ended 31 December 2012 would have been RMB1,135 million, and profit for the year ended 31 December 2012 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. OTHER COMPREHENSIVE EXPENSES

	2013	2012
	RMB'000	RMB'000
Other comprehensive expenses include:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**1,130**	64
Income tax relating to items that may be reclassified subsequently	**–**	–
Other comprehensive expenses, net of income tax	**1,130**	64

39. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013 RMB'000	2012 RMB'000
Assets and liabilities		
Investments in subsidiaries	**167,871**	167,871
Other receivables and prepayment	**357**	136
Amounts due from subsidiaries	**1,112,731**	944,659
Bank balances and cash	**42,418**	62,366
Other payables	**(31,413)**	(20,786)
Amounts due to subsidiaries	**(1,894)**	(1,894)
	1,290,070	1,152,352
Capital and reserves		
Share capital	**37,664**	37,532
Share premium and reserves	**1,252,406**	1,114,820
	1,290,070	1,152,352

Note:

Movement in the reserves:		
1 January	**1,114,820**	1,130,740
Repurchase and cancellation of shares	**(82,598)**	(45,057)
Profit for the year	**3,463,283**	128,100
Recognition of equity-settled share-based payments	**18,559**	12,709
Shares issued upon exercise of share options	**32,312**	1,317
Dividend	**(3,293,970)**	(112,989)
31 December	**1,252,406**	1,114,820

40. 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 borrowing, 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.

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2013 RMB'000	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	4,569,046	1,845,025
Held for trading investments	20,735	4,939
Available-for-sale investments	5,000	5,000
Financial liabilities		
Amortised cost	232,967	566,075
Other financial liability	3,122	10,679
Conversion option derivative liability	–	314,829

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 joint venture, loan receivables, trade receivables, other receivables, pledged bank deposit, bank deposits, bank balances and cash, trade and other payables, amount due to a related company, amount due to an associate, secured bank borrowing, other financial liability, 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.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

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 borrowing, other financial liability and redeemable convertible preferred shares) at the end of the reporting period are as follows:

	Assets		Liabilities	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**110,800**	271,804	**47,562**	265,821
USD	**3,014,775**	287,134	**14,173**	511,151
EURO	**4,817**	194,405	**–**	10,679
AUD	**15**	–	**104,672**	–

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD, USD, EURO or AUD. 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.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis (Cont'd)

	2013	2012
	RMB'000	RMB'000
Profit for the year		
HKD	**(3,162)**	(299)
USD	**(150,030)**	11,201
EURO	**(241)**	(9,186)
AUD	**5,233**	—

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

(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 (note 21), pledged bank deposit and secured bank borrowing (note 32). 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 (note 29) 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.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Other price risk (Cont'd)

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 in 2012 (2013: No effect as converted).

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.

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk

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

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

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

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2013					
Trade and other payables	–	128,295	–	128,295	128,295
Secured bank borrowing	3.838	107,402	–	107,402	104,672
Other financial liability – net settle	–	3,122	–	3,122	3,122
		238,819	–	238,819	236,089
2012					
Trade and other payables	–	181,644	–	181,644	181,644
Amount due to a related company	–	121	–	121	121
Amount due to an associate	–	5,600	–	5,600	5,600
Secured bank borrowing	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

41. 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 liabilities, 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).

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Fair value (Cont'd)

Financial assets/ financial liabilities	Fair value as at 31 December 2013 RMB'000	Fair value as at 31 December 2012 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Held for trading investment classified as financial asset	**20,735**	4,939	Level 1	Quoted bid prices in an active market	N/A	N/A
Other financial liability classified as financial liability	**3,122**	10,679	Level 2	Discounted cash flow. Future cash flow are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Conversion option and other derivatives classified as financial liability	**–**	314,829	Level 3	Income approach method. It was derived from the present worth of future economic benefits by discounting future debt free cash flows available for distribution to owners to their present worth at market-derived rate of return for the risk of investing in similar business.	Expected volatility	The higher the expected volatility, the higher the fair. value.

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

42. 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 2013 made by the Group amounted to approximately RMB41,648,000 (2012: RMB29,702,000).

43. 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

	2013 **RMB'000**	2012 RMB'000
Rentals charged by Fuzhou 851	**6,816**	6,562
Service fee at recreation centre paid to Fuzhou 851	**6,125**	6,341
After-sales service fee paid to Fuzhou Tianliang	**14,031**	12,200
Technical service fee paid to Fuzhou Tianliang	**2,131**	2,600
Interest received on loan advanced to key management	**(52)**	(88)
Technical service fee received from Jiangsu BoDe	**(2,840)**	(3,060)
Server rental income received from Jiangsu BoDe	**(536)**	—

43. RELATED PARTY TRANSACTIONS (Cont'd)

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.

During the year ended 31 December 2013, an associate, 廈門易用, has subscribed for 2,000,000 new ordinary shares of the subsidiary, 福州暢裕網絡科技有限公司, for a cash consideration of RMB2,000,000.

During the year ended 31 December 2013, the Group has disposed of the motor vehicles acquired during the year to one of the Ultimately Controlling Shareholders, Mr. Zheng Hui for a cash consideration of RMB681,000, which is the same as the original purchase price.

In addition, included in loan receivables at 31 December 2013 were loans advanced to key management of approximately RMB1,000,000 (31 December 2012: RMB2,400,000). The loans carry fixed interest at the rate of 4.48% per annum.

Compensation of key management personnel

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

	2013	2012
	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	**3,697**	4,096
Contribution to retirement benefits schemes	**75**	82
Share-based payments expense	**30,566**	8,361
	34,338	12,539

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

44. DISPOSAL OF SUBSIDIARIES

As described in note 9, NetDragon BVI and Baidu entered into S&P Agreement pursuant to which NetDragon BVI has conditionally agreed to sell, and Baidu has conditionally agreed to purchase the entire equity interest of 91 Group. Under such agreement, the Group shall be entitled to receive an aggregate consideration of USD1.09 billion (equivalent to approximately RMB6,704 million) before a special dividend of USD29.89 million (equivalent to approximately RMB184 million). 91 Group carries out all of the Group's mobile Internet business which is classified as discontinued operations for the Group as a result of the Disposal. The net assets of 91 Group at the date of the Disposal were as follows:

	RMB'000
Consideration received and receivable:	
Cash received	6,459,419
Other receivable (Note 22)	60,969
Legal and professional fees	(12,025)
	6,508,363
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	5,858
Interest in a joint venture	18,811
Interests in associates	—
Trade receivables	101,049
Other receivables, prepayments and deposits	39,830
Deferred tax assets	8,368
Bank balances and cash	1,017,001
Trade and other payables	(264,580)
Deferred income	(4,804)
Amount due to a related company	(1,136)
Amount due to a joint venture	(348)
Income tax payable	(75,132)
Dividend payable	(320,092)
Deferred tax liabilities	(27,695)
Net assets disposed of	497,130

44. DISPOSAL OF SUBSIDIARIES (Cont'd)

	RMB'000
Gain on disposal of subsidiaries:	
Consideration received and receivable	6,704,164
Adjusted for the cash consideration arising from dividend declared prior to the completion of the Disposal	(183,776)
Legal and professional fees	(12,025)
	6,508,363
Net assets disposed of	(497,130)
Non-controlling interests	298,175
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries	(50)
Gain on disposal of subsidiaries before taxation	6,309,358
Taxation	(497,395)
Gain on disposal of subsidiaries, net of related income tax	5,811,963
Net cash inflow arising on disposal:	
Consideration received	6,643,195
Bank balances and cash disposed of	(1,017,001)
Legal and professional fees	(12,025)
	5,614,169

The impact of disposed subsidiaries on the Group's results and cash flows in the current year is disclosed in note 9.

45. CAPITAL COMMITMENTS

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

	2013 **RMB'000**	2012 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**150,920**	124,438
Capital expenditure in respect of acquisition of equity investment authorised but not contracted for in the consolidated financial statements	**28,800**	–

46. 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:

	2013	2012
	RMB'000	RMB'000
Within one year	**14,944**	19,638
In the second to fifth year inclusive	**7,990**	24,912
Over five years	**9,967**	13,237
	32,901	57,787

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 RMB505,000 (2012: RMB448,000). The property is expect to generate rental yields of 3.2% (2012: 2.2%) on an ongoing basis. The property held has committed tenants for the next year.

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2013	2012
	RMB'000	RMB'000
Within one year	**313**	426
In the second to fifth years inclusive	**–**	346
	313	772

47. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2013 and 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid up ordinary share/registered capital	Proportion of registered capital /issued share capital/equity interests and voting power held by the Company directly %		indirectly %		Principal activities
			2013	2012	**2013**	2012	
NetDragon Websoft Inc.	BVI	USD222,203.93	**100**	100	**–**	–	Investment holding
NetDragon (Fujian)*	PRC	RMB10,100,000.00	**–**	–	**–**	–	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 (Hong Kong) Limited (網龍香港有限公司)	Hong Kong	HKD1.00	**–**	–	**100**	100	Licensing and servicing of the developed games and provision for support services to the Group
Glory More Limited (展凱有限公司)	Hong Kong	HKD1.00	**–**	–	**100**	100	Investment holding
TQ Online #	PRC	RMB264,000,000.00	**–**	–	**100**	100	Development of online games and licensing and servicing of developed games
福州網龍天像科技有限公司 # (Fuzhou NetDragon TianXiang Technology Inc.)	PRC	RMB50,000,000.00	**–**	–	**100**	100	Investment holding
91 Wireless Websoft Limited ^	Cayman Islands	USD14,033.56	**–**	–	**–**	100	Investment holding
Fuzhou BoYuan Wireless Websoft Technology Limited ^ ("Fuzhou BoYuan")	PRC	RMB33,000,000.00	**–**	–	**–**	100	Provision of consulting services
Fujian BoRui*^	PRC	RMB10,000,000.00	**–**	–	**–**	–	Operation of mobile Internet business

47. 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 BoRui, 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.

^ Disposed during 2013.

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.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong and PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	**Principal place of business**	**Number of subsidiaries**	
		2013	2012
Investment holding	Hong Kong	**7**	13
Provision of support to the Group	PRC	**13**	15
		20	28

48. EVENT AFTER THE REPORTING PERIOD

On 24 January 2014, NetDragon BVI entered into a cooperation agreement with independent third parties, Foxteq Holdings Inc. and Vision Knight Capital (China) Fund I, L.P., pursuant to which all cooperation parties agreed to collaborate in the exploration and business operation in the online education and related application market through the establishment of the wholly foreign owned enterprise ("WOFE") in the PRC and a PRC company at the proposed registered capital of USD8,000,000 and RMB10,000,000, respectively. A series of structure contracts are intended to be entered between the WOFE and the PRC company.

The directors of the Company are still assessing the financial impact of this transaction. Further details of the business plan are set out in the announcement of the Company dated 24 January 2014.