2014 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

Mr. Lau Hak Kin

QUALIFIED ACCOUNTANT

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

AUTHORISED REPRESENTATIVES

Mr. Liu Luyuan
Mr. Lau Hak Kin

HONG KONG LEGAL ADVISER

Sidley Austin

PRC LEGAL ADVISER

Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

CORPORATE INFORMATION

PRINCIPAL BANKERS

Bank of America
China Minsheng Banking Corp., Ltd.
The Hong Kong 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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Hong Kong

COMPANY WEBSITE

www.nd.com.cn

CORPORATE PROFILE

NetDragon Websoft Inc. ("NetDragon" or the "Company"), headquartered in Fuzhou City of Fujian Province of the People's Republic of China (the "PRC"), is a leading online game and mobile internet platform developer and operator in the PRC and is committed to becoming a pioneer in developing a transformational online and mobile education ecosystem platform. NetDragon went IPO in 2007 and was transferred to the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 June 2008 by introduction. The Company became a constituent stock of the Hang Seng Family of Indexes on 9 September 2013.

Leveraging its advanced technologies, research and development capabilities, deep market insight and extensive global perspective, NetDragon launched a series of original and proprietary online games, mobile games and mobile application products, and has become a forerunner in China's online game and mobile Internet industries and a pioneer in overseas market expansion. The Company has been recognized as a "Forbes Top 2000 Global Companies", "Top 10 Most Valuable Online Gaming Companies in China Over the Past Decade", "Top 10 Game Enterprises for Overseas Expansion in China", "National Key Software Enterprise", "National Cultural Industry Demonstration Base", "Annual National Key Culture-Export Enterprises", "China Publishing Government Award - Advanced Publishing Unit Award "and "National Outstanding Award for Internet Cultural Enterprise".

NetDragon is committed to developing its own proprietary games and strives to promote the development of online game industry as a whole. To date, it has successfully launched and has been operating various online flagship titles with diversified themes including Eudemons Online (魔域), Conquer Online (征服), Zero Online (機戰), Tou Ming Zhuang Online and Monster & Me; and successfully launched its first in-house developed competitive web game – Calibur of Spirit (英魂之刃). Tiger Knight (虎豹騎), an in-house developed 3D action war game, is currently in its final stage of development. By leveraging its gaming competencies and years of experience in the development and operation of MMORPGs, NetDragon launched a number of mobile games including Crazy Tribe* (瘋狂部落), Evil Spirits* (妖界), The Pirate* (大海盜) and Eudemons Online Pocket Version* (魔域口袋版), a mobile version of the Company's flagship MMORPG Eudemons Online (魔域). Going forward, NetDragon will continue to develop mobile games with different style and diversify its product lines. The Company is also one of the major Chinese overseas online game operators with a variety of products in ten languages including English, French, Spanish and Arabic.

NetDragon is also one of the most successful serial-entrepreneurial mobile internet companies in China. In 2008, "91 Assistant"* (91助手) (formerly known as "91 PC Suite") was launched by NetDragon and is one of the most popular smart phone management tools for smart phones users. HiMarket* (安卓市場) was the most active third party download platform for Android users in China in terms of user base and total downloads. In October 2013, NetDragon completed the sale of 91 Wireless Websoft Limited and its subsidiaries ("91 Group") to Baidu (Hong Kong) Limited, a wholly-owned subsidiary of Baidu, Inc., for USD1.9 billion, the largest M&A transaction in the mobile internet space in China.

* *For identification purpose only*

CORPORATE PROFILE

NetDragon is currently developing a new strategic business – online and mobile education. The Company's vision in the education space is to develop a game-changing online and mobile education ecosystem that will empower students and learners to learn not just more effectively and efficiently, but with more fun and motivation compared to the conventional way of education. The Group intends to achieve this vision by leveraging its proven world-class mobile internet and gaming expertise, large-scale technology resources and team infrastructure that was built out of scaling several successful businesses over the many years since its inception. The Company is currently in product development stage with the high-level roadmap to create a holistic, integrated ecosystem product that covers best-in-class software, hardware, content and social network, and to be commercialized and scaled with a mobile internet strategy.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December				
	2010	2011	2012	2013	**2014**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	531,772	760,974	1,108,349	1,492,706	**962,817**
Cost of revenue	(66,333)	(75,032)	(116,359)	(159,638)	**(102,844)**
Gross profit	465,439	685,942	991,990	1,333,068	**859,973**
Other income and gains	60,864	38,156	50,025	51,956	**157,101**
Selling and marketing expenses	(101,993)	(140,340)	(152,173)	(167,804)	**(152,495)**
Administrative expenses	(182,022)	(210,941)	(247,628)	(441,132)	**(326,934)**
Development costs	(162,234)	(159,269)	(204,173)	(220,730)	**(249,260)**
Other expenses	(10,392)	(11,594)	(27,153)	(25,225)	**(34,027)**
Share of losses of associates	–	(581)	(1,456)	(953)	**(2,354)**
Share of (losses) profit of a joint venture	–	–	(1,391)	796	**–**
Operating profit	69,662	201,373	408,041	529,976	**252,004**
Interest income on pledged bank deposits	–	–	4,849	4,883	**2,794**
Exchange gain (loss) on pledged bank deposits, secured bank borrowings and redeemable convertible preferred shares	–	–	11,909	5,726	**(5,081)**
Net (loss) gain on derivative financial instruments	–	(17,792)	(282,424)	27,223	**6,817**
Gain on disposal of available-for-sale investment	–	–	–	5,761	**–**
Net (loss) gain on held-for-trading investments	–	–	(61)	8,756	**(17,304)**
Gain on disposal of subsidiaries, net of related income tax	–	–	–	5,811,963	**–**
Finance costs	–	(3,806)	(28,417)	(15,526)	**(3,212)**
Profit before taxation	69,662	179,775	113,897	6,378,762	**236,018**
Taxation	(34,769)	(44,532)	(74,936)	(156,314)	**(64,197)**
Profit for the year	34,893	135,243	38,961	6,222,448	**171,821**

	For the year ended 31 December				
	2010	2011	2012	2013	**2014**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Attributable to:					
– Owners of the Company	34,949	135,161	39,176	6,140,776	**176,681**
– Non-controlling interests	(56)	82	(215)	81,672	**(4,860)**
Profit for the year	34,893	135,243	38,961	6,222,448	**171,821**
Earnings per share					
– Basic (RMB cents)	6.64	25.85	7.71	1,213.44	**34.77**
– Diluted (RMB cents)	6.64	25.85	7.60	1,181.10	**34.22**

Note: The results for the year ended 31 December 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				
	2010	2011	2012	2013	**2014**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	272,897	340,833	562,833	846,894	**1,470,787**
Current assets	1,287,043	1,555,987	1,882,520	4,603,095	**3,759,600**
Non-current liabilities	–	(171,607)	(516,085)	–	**(1,399)**
Current liabilities	(108,783)	(226,319)	(513,265)	(827,111)	**(611,585)**
Non-controlling interests	540	458	(22,154)	(7,736)	**(50,489)**
Equity attributable to owners of the Company	1,451,697	1,499,352	1,393,849	4,615,142	**4,566,914**

CHAIRMAN'S STATEMENT

Dear Shareholders,

As I share with you the highlights of our performance for 2014, allow me to make a few observations about NetDragon and why we believe we are in a unique position to succeed. Among these things is the importance that we place on research and development (R&D). Over half of our team is in R&D scope, and as we add headcount to meet the challenges of the next disruptive technologies, we are building depth and capability.

As online games and mobile Internet applications experts and developers, we embrace complex digital eco-systems and know how to leverage the technologies of the future, whether Big Data analytics or Cloud computing, to build world-class products for our customers. Moreover, from the founding of the Group in 1999 to the present, our focus has been on developing scalable products and technologies. Our online games provide daily enjoyment to many users. As we take our first step into the massive potential market for online education, we will leverage our experiences to develop products tailored to the needs of the largest addressable learning population of the world.

NetDragon at 15th anniversary

As one of the pioneers in China's internet space, NetDragon has learned how to take advantage of disruptive technologies and solutions.

Today, we are in an enviable position. We were ranked third in Forbes China's 2015 ranking of China's Top 100 Publicly Traded Small Businesses. We are among the market leaders in China in online games, with stable cash flow from our flagship games, Eudemons Online (魔域) and Conquer Online (征服), nearly 15% of which is from overseas markets, in 10 languages. We provide regular expansion packs and upgrades for our MMORPG games. We are proud that the Group's first micro-client Multiplayer Online Battle Arena (MOBA) game, Calibur of Spirit (英魂之刃) was selected as the only Chinese game in the World Cyber Arena tournament in October 2014, which began open beta testing in early 2015. By the end of 2015, Tiger Knight (虎豹騎), a 3D action strategy game which will begin second round of closed beta testing in second quarter of 2015, is expected to be available in English on Steam, a global, fully integrated digital gaming and social platform, following an agreement signed in July 2014 with Valve, the developer behind the Steam Community.

China's mobile gaming market is growing rapidly. Its transaction value is expected to double between 2014 and 2015, from approximately RMB20 billion to RMB40-50 billion, according to the gaming information website 7881.com. Consumer research firm Nielsen estimates that there were 330 million mobile gamers in China by the third quarter of 2014. These are large numbers, and have triggered a rapid migration towards mobile gaming among most of our peers. Our mobile games business is currently in incubation stage and our team is dedicated to provide the best mobile game play experience, leveraging our advanced gaming technologies and knowhow. The Group's new mobile game Eudemons Online Pocket Version* (魔域口袋版) has received early success since being launched in January 2015, and the Group is expected to continue to release several unique, high-quality mobile games in 2015.

* *For identification purpose only*

Online Education: Next Strategic Focus

The Company believes the education industry is ripe for a major change. There is a strong and ever-growing need for a mobile educational platform that creates true educational value and makes people want to come back to learn more. In the Company, we approach education with a fresh, outsider perspective and try to critically understand the pain points that have in many ways crippled the conventional education model for decades. Our uniqueness in education lies not just in our focus and long term commitment in this space, but also in our strong mobile DNA that differentiates us from conventional education companies. For example, our deep understanding of how users behave and react in the mobile internet world allows us to integrate motivational techniques in our education product design to ensure students learn and have fun at the same time. Another unique competency of the Group in education is our accumulation of knowhow in pedagogy and instructional approaches through working with our education partners, such as Beijing Normal University, and absorbing the knowhow and finding ways to most optimally integrate pedagogies into our products in order to create the highest educational value.

We anticipate continuing to make a significant investment in online education. Needless to say, there are many other companies chasing this potentially huge market. We believe we have substantive advantages in this market from our deep experience in the online gaming sector, which has given us the capacity and scale to deal with heavy user traffic as well as the expertise to make education products fun. On the research and development side, we have a visionary management team and a team of experienced developers. We have incubated and scaled multiple new businesses in the digital online space, from 17173.com to 91 Wireless Websoft Limited and our MMO games.

In China, online education is a matter of urgent national priority. China's national education plan for year 2010-2020 promotes modernization of education through "informatisation" or the deployment of information and communication technologies (ICT). The Company was one of a very select few tier-one mobile Internet companies that are officially admitted to the Education Informatization Standard Committee under the Ministry of Education in November 2014. Such involvement will allow the Group to participate in the forming of technology standards, which will be conducive for us in developing the right products that meet or exceed regulatory standards.

The monetization prospects are huge. Globally, spending on education is increasing at a compound annual growth rate of 7%, from USD4.5 trillion in 2012 to and estimated USD5.5 trillion in 2015. The global online learning component is growing at a Compound Annual Growth Rate (CAGR) of 23% annually, from USD90 billion in 2012 to an estimated USD166.5 billion in 2015. According to the iResearch Consulting Group, China's online education market grew by 19.9% in 2013, with 67.2 million online learners and RMB83.97 billion in revenue. Over the next four years, online K-12 education could increase at a CAGR of 36.5% annually.

In summary, we view our online education product as a game changer that will take NetDragon to the next level. We see both substantial opportunities for monetization as well as a chance to play a pivotal role in meeting China's national goals in education. This is a challenge that we are ready to take on, and believe will add enormous value to our shareholders and other stakeholders.

Looking Ahead

As we look back at the history of our achievements and celebrate our 15th anniversary, we are preparing for a major inflection point as we launch our new online education ecosystem. 2014 has been a year of building and solidifying the foundation for this venture, but meanwhile we have kept our online games business healthy through innovation and investment. We believe that we have the human capital and the experience to become the first mover in offering an education product that will be a class of its own. Let me take the opportunity to thank you, our shareholders, for your continuous support, as well as to thank all of our employees, management, and our various stakeholders and customers around the world for helping to make NetDragon one of the world's most exciting and successful companies.

Liu Dejian
Chairman

Hong Kong, 26 March 2015

* *For identification purpose only*

(1) INDUSTRY REVIEW

Overview

NetDragon's business portfolio straddles two of the world's largest games markets, for client and web-based online games on the one hand, and mobile games on the other. It is in product development stage for online education which is in its infancy in China and internationally, but which has enormous growth potential that cannot be ignored.

On a macro-economic level, the rapid growth of the Internet in China has underpinned growth of China's online games market. The number of online game players in China in 2014 hit 517 million, nearly half of the population of China, and 80% of China's 649 million Internet users.[1] The rapid growth of smartphone use in China has similarly led the growth of mobile gaming, with 358,000 mobile phone or tablet using gamers by the end of 2014 according to the China Audio-video and Digital Publishing Association (GPC), a number representing 64% of all 557 million smartphone users.

2014 revenue in China's total gaming market were RMB114.5 billion, ranking it second among global gaming markets in revenue terms according to Newzoo Games Market Research.[2] According to Market Intelligence & Consulting Institute, by 2016 China's online gaming market will overtake that of the United States of America (US) with anticipated revenue of USD24.5 billion.[3]

TOP 9 COUNTRIES BY GAMING REVENUES, 2014

COUNTRY	REGION	POPULATION	INTERNET POPULATION	TOTAL REVENUES IN USD	REVENUE RANK
United States of America	North America	322,583,006	274,292,330	20,484,628,000	1
China	Asia	1,393,783,836	701,073,270	17,866,677,000	2
Japan	Asia	126,999,808	101,663,346	12,219,552,000	3
Germany	Western Europe	82,652,256	71,080,940	3,528,196,000	4
United Kingdom	Western Europe	63,489,234	55,476,893	3,426,259,000	5
Republic of Korea	Asia	49,512,026	42,629,854	3,356,202,000	6
France	Western Europe	64,641,279	56,237,913	2,608,818,000	7
Canada	North America	35,524,732	31,890,552	1,717,991,000	8
Italy	Western Europe	61,070,224	36,886,415	1,514,067,000	9

Source: Newzoo Market Research

GPC, which publishes an industry report on an annual basis including estimates of users and revenue, breaks down the gaming market into five segments – client games, mobile games, social games, web games and single player games. NetDragon has been positioned as a developer of client games since its founding in 1999, with more recent market entry to the web games and mobile games category. The following industry review includes an analysis of client and web games in a single PC-centric category, with separate analysis of mobile gaming, overseas game sales and online education markets. The review is based entirely on public sources, which are cited in endnotes.

Current Trends in China's Internet and Smartphone Industries

The overarching trend behind the growth of online games and mobile games in China is the extraordinary expansion of the Internet over the past 15 years, followed more recently by a similar rapid expansion in the use of smartphones, on which more complex games can be played.

China's Internet population has expanded rapidly from 2000 to 2014. The current number of Internet users in China is more than twice the entire US population, but the rate of Internet penetration is only 47.9%, with rural users accounting for 27.5%.[4] In contrast, 74.4% of US households reported Internet use in 2013, according to the US Census Bureau. There were only 31 million new Internet users in 2014, a growth rate of approximately 5%, compared to growth rates of 10% in 2013 and 8% in 2012 respectively.

Nearly all of the Internet user growth in 2014 came from smartphones, Internet use among smartphone users increased from 81% in 2013 to 85.8% in 2014. At the same time, smartphone sales declined by 8.2% in 2014, with shipments of 389 million phones compared to 423 million phones in 2013, according to China's Ministry of Industry and Information Technology. Smartphones accounted for 86% of all mobile phone shipments. China's mobile users now number 1.28 billion, with a penetration rate of 95%. According to the data released by China Academy of Telecommunication Research, China's market for smartphones is the world's largest, but at these levels of penetration most observers believe it will continue to contract in terms of the annual shipments. Shipments of all types of mobile phones dropped 22% to 452 million units, led by a 64% plunge in 2G phones and a 46% drop in 3G phones.

Client and Web Games

Client games use software downloaded from a game server, which then provides the connection to run the game and play with other users, in massively multiplayer online (MMO) games and massively multiplayer online role-playing games (MMORPG). Client games are NetDragon's largest source of revenue and also represent the dominant share of the online games market, according to GPC. The market share of client games has dropped almost steadily since 2008, when it made up 90% of the market, to 2014 when it made up 53.2% of the market. The growth rate in the number of users has followed a similar trajectory, with growth falling from 72.4% annually in 2008 to 3.9% in 2014.

At the same time, the number of client game users has tripled, from 50 million in 2008 to 158 million in 2014. Most importantly, revenue growth from client games has outpaced growth in the number of users, with 13.5% growth in revenue in 2014 to RMB60.89 billion. This was three times the revenue from web games (RMB20.27 billion), and more than twice the revenue from mobile games in 2014 (RMB27.49 billion). Revenue from social games (RMB5.78 billion) and single-player games RMB500 million made up a much smaller share of the market.

Another factor in the gradual contraction of the market share of client games has been a change in the typical venue in which client games are played. Twenty years ago, when the first Internet bars or cafes were founded, relatively few people had their own computers. Starting in 2012, the number of cyberbars began to contract. China's 136,000 cyberbars as of the end of 2012 represented a 6.9% decline from 2011, according to China's Ministry of Culture. Increasing availability of broadband in homes, as well as restrictions on cyberbar registration and age limits of users, have helped to reduce the importance of cyberbars as a low-cost venue for playing online games. At the same time, the explosion of the smartphone and tablet market has widened the choices of game players.

GPC divides client games into categories for role playing games (RPG) and casual competitive games. The market share of RPG games was 63.9% in 2014, while the market share of casual games was 36.1%. Causal games are defined as games played for a limited period of time with fewer players than MMO or MMORPG games, like chess.

Client games are capital intensive to develop and to acquire users, but experience long life cycles and have managed to attain secure payment systems and infrastructure, according to Newzoo Games Market Research. In 2014, revenue from MMO games was RMB38.91 billion, compared to RMB21.9 billion in revenue from casual competitive games. The growth rate in revenue of MMO games has been declining since 2011, although it is still at double-digit levels. Growth in MMO sales in 2014 was 10.3%, compared to 14.7% in 2013. Growth in casual competitive games in 2014 was 19.7%, down from 28.1% in 2013. But the market is far from played out, and continues to gain new life particularly from its high-end products as well as the new trend towards multi-platform products.

In 2014, the web game market contracted 6.5% in terms of the number of users, to 307 million, down from 328.7 million in 2013, but with a very significant 58.8% increase in revenue to RMB20.2 billion, from RMB12.7 billion in 2013. Increasing quality in terms of games design, artwork, and graphics has made it possible for developers to monetize the segment more effectively. Increasing use of 3D technology has also been a factor in increasing the popularity of web games, and players as well as distribution channels and investors have begun to have more confidence in the segment.

Mobile Games

In 2014, the market share of mobile games nearly doubled to 24%, from 13.5% in 2013, as revenue from the segment rose by 144.6% to RMB27.49 billion. Reflecting a slowdown in market growth of smartphones, however, growth in the number of users slowed from 248.4% in 2013 to 15.1% in 2014. As of the end of 2014, there were 357.5 million mobile game players, compared to 310.5 million mobile game players in 2013. The growth of mobile games across all metrics has been astronomical, with number of players rising from 9.8 million in 2008 to 357.7 million in 2014, an increase of more than 36 times and sales rising from RMB150 million to RMB27.94 billion over the same time period, an increase of 186 times. Even with the market growing at a slower place going forward, mobile gaming is likely to continue to be the most significant growth driver going forward. Competition will become increasingly fierce as market leaders invest more in intellectual property and human capital.

Between 2008 and 2013, the compound annual growth rate of the number of mobile gamers in China was 98%, according to GPC. The deceleration in growth in 2014 was due in part to market saturation, with total mobile gamers accounting for 64.2% of all smartphone users and 30% of all mobile users, slightly down from 38% in 2013. But other problems exist, including imperfect payment systems and too many money-losing games, as developers have tended to invest in a wide range of games in the hope that one among the many will prove to be a blockbuster. According to a recent report from China's regulatory agency, the State Administration of Radio, Film and Television, only 8% of China's mobile games make money.

International Game Revenue

According to the 2014 GPC report, overseas revenue of Chinese online games were RMB18.95 billion, with 27.7% from client games, 30.9% from web games and 41.4% from mobile games. Total overseas sales represented a 69.02% increase from 2013, with RMB11.2 billion in sales. Overseas sales of proprietary content developed in China for client games rose by a modest 4.15% to RMB5.25 billion, while sales of web games based on proprietary content rose by 30.49% to RMB5.85 billion and sales of China-developed web games increased by 366.39% to RMB7.84 billion.

However, most overseas game revenue was from Russia and Southeast Asian markets with similar cultures to China compared to those in Europe and North America.

Online Education

China's online education industry is still at an exploratory stage, but growing at double-digit rates. As of 2013, 71.2% of Chinese Internet users had not tried online education products yet, but 42.1% had plans to do so. Online education revenue was RMB 83.97 billion in 2013, and grew by 19.9% over 2012, with 67.2 million online learners, according to iResearch, an Internet consultancy group. PC-based learning remained dominant, but mobile business grew substantially. Three categories made up 75% of revenue in 2013 – online academic education, vocational education, and language training.

In 2014, iResearch estimates total online education revenue of RMB99.8 billion, and forecasts a market of RMB173.4 billion by 2017. The number of users will grow at 15% over the next few years, doubling to 120 million by 2017.

In 2014, vocational education gained in popularity as favorable government policies were rolled out. According to Sohu's Education Annual Consumer Survey, nearly half of all respondents received some form of vocational education which implies that the market is expanding. The number of people choosing online vocational education increased too. According to the same survey, about 37% of the respondents chose online education through various platforms.

Endnotes

1 Paul Carsten, "China's internet population hits 649 million, 86 percent on phones", Reuters, 3 February 2015, http://www.reuters.com/article/2015/02/03/us-china-internet-idUSKBN0L713L20150203

2 China Audio-video and Digital Publishing Association, CNG, and IDC, 2014 China Gaming Industry Report (Abstract), (Beijing, China Book Press, December 2014), pp. 13, 67; Newzoo Market Research, Top 100 Countries by Game Revenues, 2014, http://www.newzoo.com/free/rankings/top-100-countries-by-game-revenues/

3 MIC Press Room, "China to Overtake the US as the World's Largest Online Game Market by 2016: MIC", 8 January 2015, http://mic.iii.org.tw/english/press/en_5_press_room_1_1.asp?selyear5=&doc_sqno=10236

4 China Internet Network Information Center (CNNIC), "China Internet Development Statistics Report", 3 February 2015

5 中國新聞網, "中國國內手機出貨量去年降22%智能機仍增長",13 January 2015, http://tech.sina.com.cn/t/2015-01-13/doc-icesifvy3558214.shtml; Young's China Business Blog, "Cellphones: Smartphones at Tipping Point in China", 14 January 2015, http://www.youngchinabiz.com/en/cellphones-smartphones-at-tipping-point-in-china/

6 Xinhua, "China sees Internet bars contraction", 27 April 2013

7 Newzoo Games Market Research, "2014 Introduction to the Chinese Games Market – Opportunities in this expanding market: A broader perspective" (Newzoo, 2014), p. 22

8 www.iresearch.com, "2014 China Online Education Report (Brief Edition)

9 ICBC NetDragon Initiation Report, p. 11, 19 May 2014

(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 2014	30 September 2014	30 June 2014	31 March 2014	31 December 2013
PCU	**642,000**	382,000	471,000	472,000	477,000
ACU	**301,000**	225,000	239,000	239,000	266,000

Note: As at 31 December 2014, 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, Calibur of Spirit Online and other games.

The PCU for online games was approximately 642,000 for the three months ended 31 December 2014, representing an increase of approximately 68.1% from the three months ended 30 September 2014 and representing an increase of approximately 34.6% from the three months ended 31 December 2013.

We also recorded the ACU for online games of approximately 301,000 for the three months ended 31 December 2014, which represented an increase of approximately 33.8% from the three months ended 30 September 2014 and represented an increase of approximately 13.2% from the three months ended 31 December 2013.

(3) FINANCIAL PERFORMANCE HIGHLIGHTS

YEAR ENDED 31 DECEMBER 2014

The following table sets forth the comparative figures for the years ended 31 December 2014 and 2013:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Continuing operations		
Revenue	**962,817**	884,518
Cost of revenue	**(102,844)**	(81,426)
Gross profit	**859,973**	803,092
Other income and gains	**157,101**	44,980
Selling and marketing expenses	**(152,495)**	(106,200)
Administrative expenses	**(326,934)**	(366,143)
Development costs	**(249,260)**	(162,857)
Other expenses	**(34,027)**	(10,046)
Share of losses of associates	**(2,354)**	(16)
Operating profit	**252,004**	202,810
Interest income on pledged bank deposits	**2,794**	4,883
Exchange (loss) gain on pledged bank deposits and secured bank borrowings	**(5,081)**	4,593
Net gain (loss) on derivative financial instrument	**6,817**	(5,481)
Gain on disposal of available-for-sale investment	**–**	5,761
Net (loss) gain on held-for-trading investments	**(17,304)**	8,756
Finance costs	**(3,212)**	(4,651)
Profit before taxation	**236,018**	216,671
Taxation	**(64,197)**	(50,264)
Profit for the year from continuing operations	**171,821**	166,407
Discontinued operations		
Profit for the year from discontinued operations	**–**	6,056,041
Profit for the year	**171,821**	6,222,448
Profit (loss) for the year attributable to:		
– Owners of the Company	**176,681**	6,140,776
– Non-controlling interests	**(4,860)**	81,672
	171,821	6,222,448

Revenue

Continuing operations

Revenue from online game and other business for the year ended 31 December 2014 was approximately RMB962.8 million, representing an increase of approximately 8.9% as compared to approximately RMB884.5 million for the year ended 31 December 2013.

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

	Year ended 31 December			
	2014		2013	
	RMB'000	**% of revenue**	RMB'000	% of revenue
PRC	**816,161**	**84.8**	781,442	88.3
Overseas	**146,656**	**15.2**	103,076	11.7
	962,817	**100.0**	884,518	100.0

The Group's revenue analysed by geographical segments is based on the location where services are provided. The revenue derived from the PRC for the year ended 31 December 2014 was approximately RMB816.2 million, representing an increase of approximately 4.4% over the year ended 31 December 2013.

The revenue derived from overseas markets for the year ended 31 December 2014 was approximately RMB146.6 million, representing an increase of approximately 42.3% over the year ended 31 December 2013.

Fourth Quarter of 2014

Continuing operations

Revenue

The revenue for the fourth quarter of 2014 was approximately RMB282.9 million, representing an increase of approximately 21.6% from the third quarter of 2014 and an increase of approximately 23.5% over the same period in 2013.

Cost of revenue

Cost of revenue for the fourth quarter of 2014 was approximately RMB36.4 million, representing an increase of approximately 54.4% from the third quarter of 2014 and an increase of approximately 57.5% over the same period in 2013.

Other income and gains

Other income and gains of approximately RMB32.5 million were recorded for the fourth quarter of 2014, representing a decrease of approximately 9.9% from the third quarter of 2014 and an increase of approximately 121.0% over the same period in 2013.

Selling and marketing expenses

Selling and marketing expenses for the fourth quarter of 2014 were approximately RMB51.2 million, representing an increase of approximately 32.8% from the third quarter of 2014 and an increase of approximately 61.6% over the same period in 2013.

Administrative expenses

Administrative expenses for the fourth quarter of 2014 were approximately RMB120.9 million, representing an increase of approximately 55.9% from the third quarter of 2014 and a decrease of approximately 14.2% over the same period in 2013.

Development costs

Development costs for the fourth quarter of 2014 were approximately RMB89.3 million, representing an increase of approximately 32.6% from the third quarter of 2014 and an increase of approximately 100.8% over the same period in 2013.

Other expenses

Other expenses for the fourth quarter of 2014 were approximately RMB12.0 million, representing an increase of approximately 226.7% from the third quarter of 2014 and an increase of approximately 126.4% over the same period in 2013.

Net loss on derivative financial instrument

No net loss was made for the fourth quarter of 2014, but net loss on derivative financial instrument for the third quarter of 2014 and the same period in 2013 was approximately RMB0.6 million and RMB3.1 million.

Finance costs

Finance costs for the fourth quarter of 2014 were approximately RMB0.2 million, representing a decrease of approximately 67.7% from the third quarter of 2014 and a decrease of approximately 75.7% over the same period in 2013.

(Loss) profit for the period from continuing operations

Loss for the fourth quarter of 2014 was approximately RMB22.2 million, representing an increase of approximately 711.0% over the same period in 2013, whereas, profit for the third quarter of 2014 was approximately RMB52.4 million.

Continuing and discontinued operations

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

Loss for the period attributable to the owners of the Company for the fourth quarter of 2014 was approximately RMB19.4 million, whereas, profit for the period attributable to the owners of the Company for the third quarter of 2014 and the fourth quarter of 2013 was approximately RMB52.6 million and RMB5,807.1 million, respectively.

(4) FINANCIAL REVIEW

Fourth Quarter of 2014 Compared to Third Quarter of 2014

The following table sets forth the comparative figures for the fourth quarter of 2014 and the third quarter of 2014:

	Three months ended	
	31 December 2014 (Unaudited) RMB'000	30 September 2014 (Unaudited) RMB'000
Revenue	**282,880**	232,702
Cost of revenue	**(36,342)**	(23,530)
Gross profit	**246,538**	209,172
Other income and gains	**32,464**	36,034
Selling and marketing expenses	**(51,206)**	(38,569)
Administrative expenses	**(120,876)**	(77,538)
Development costs	**(89,278)**	(67,341)
Other expenses	**(11,977)**	(3,666)
Share of losses of associates	**(1,715)**	(406)
Operating profit	**3,950**	57,686
Interest income on pledged bank deposit	**475**	638
Exchange gain on pledged bank deposit and secured bank borrowing	**–**	1,188
Net loss on derivative financial instrument	**–**	(646)
Net loss on held-for-trading investments	**(16,905)**	(1,553)
Finance costs	**(235)**	(728)
(Loss) profit before taxation	**(12,715)**	56,585
Taxation	**(9,442)**	(4,166)
(Loss) profit for the period	**(22,157)**	52,419
(Loss) profit for the period attributable to:		
– Owners of the Company	**(19,406)**	52,595
– Non-controlling interests	**(2,751)**	(176)
	(22,157)	52,419

Revenue

Our revenue from online game and other business for the three months ended 31 December 2014 was approximately RMB282.9 million, representing an increase of approximately 21.6% as compared to approximately RMB232.7 million for the three months ended 30 September 2014.

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

	Three months ended			
	31 December 2014		30 September 2014	
	RMB'000	**% of revenue**	RMB'000	% of revenue
PRC	**229,042**	**81.0**	195,877	84.2
Overseas	**53,838**	**19.0**	36,825	15.8
	282,880	**100.0**	232,702	100.0

The revenue derived from the PRC for the three months ended 31 December 2014 was approximately RMB229.0 million, representing an increase of approximately 16.9% as compared to approximately RMB195.9 million for the three months ended 30 September 2014. The increase in revenue derived from the PRC was mainly due to the increase in revenue from (i) Eudemons Online and Calibur of Spirit Online; and (ii) mobile technology and mobile marketing business.

The revenue derived from overseas markets for the three months ended 31 December 2014 was approximately RMB53.9 million, representing an increase of approximately 46.2% as compared to approximately RMB36.8 million for the three months ended 30 September 2014. The increase in revenue derived from the overseas markets was mainly contributed from mobile technology and mobile marketing business.

Cost of revenue

Cost of revenue for the three months ended 31 December 2014 was approximately RMB36.4 million, representing an increase of approximately 54.4% as compared to approximately RMB23.5 million for the three months ended 30 September 2014. The increase was mainly due to the increase in (i) server leasing fee; (ii) cost of mobile technology and mobile marketing business; and (iii) cost of education business.

Gross profit

Our gross profit for the three months ended 31 December 2014 was approximately RMB246.5 million, representing an increase of approximately 17.9% as compared to approximately RMB209.2 million for the three months ended 30 September 2014.

Gross profit margin for the three months ended 31 December 2014 was approximately 87.2%, which represented a decrease of approximately 2.7% as compared with the three months ended 30 September 2014.

Other income and gains

Other income and gains for the three months ended 31 December 2014 were approximately RMB32.5 million, representing a decrease of approximately 9.9% as compared with the three months ended 30 September 2014. The decrease in other income and gains was mainly due to the decrease in interest income.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2014 were approximately RMB51.2 million, representing an increase of approximately 32.8% as compared with the three months ended 30 September 2014. The increase in selling and marketing expenses was mainly due to the increase in advertising and promotion expenses.

Administrative expenses

Administrative expenses increased by approximately 55.9% to approximately RMB120.9 million for the three months ended 31 December 2014 as compared with the three months ended 30 September 2014, which was mainly due to the increase in (i) staff costs; (ii) depreciation and amortisation; (iii) rental expenses; (iv) low value consumables; (v) other tax and charges; and (vi) recruiting fee.

Development costs

Development costs increased by approximately 32.6% to approximately RMB89.3 million for the three months ended 31 December 2014 as compared with the three months ended 30 September 2014. The increase in the development costs was mainly caused by the increase in (i) staff costs; and (ii) outsourcing fee.

Other expenses

Other expenses for the three months ended 31 December 2014 were approximately RMB12.0 million, representing an increase of approximately 226.7% as compared with three months ended 30 September 2014. The increase in other expenses was mainly due to offset of the (i) increase in allowances on trade receivables; and (ii) decrease in donation.

Taxation

Taxation for the three months ended 31 December 2014 was approximately RMB9.4 million, which raised by approximately 126.6% as compared with the three months ended 30 September 2014. The increase was mainly due to the underprovision of tax in prior years.

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

Loss for the period attributable to the owners of the Company for the three months ended 31 December 2014 was approximately RMB19.4 million, whereas, profit for the period attributable to the owners of the Company for the three months ended 30 September 2014 was approximately RMB52.6 million.

Fourth Quarter of 2014 Compared to Fourth Quarter of 2013

The following table sets forth the comparative figures for the fourth quarter of 2014 and the fourth quarter of 2013:

	Three months ended	
	31 December 2014 (Unaudited) RMB'000	31 December 2013 (Unaudited) RMB'000
Continuing operations		
Revenue	**282,880**	229,001
Cost of revenue	**(36,342)**	(23,070)
Gross profit	**246,538**	205,931
Other income and gains	**32,464**	14,687
Selling and marketing expenses	**(51,206)**	(31,692)
Administrative expenses	**(120,876)**	(140,882)
Development costs	**(89,278)**	(44,469)
Other expenses	**(11,977)**	(5,290)
Share of (losses) profit of associates	**(1,715)**	8
Operating profit (loss)	**3,950**	(1,707)
Interest income on pledged bank deposit	**475**	840
Exchange gain on pledged bank deposit and secured bank borrowing	**–**	4,465
Net loss on derivative financial instrument	**–**	(3,122)
Gain on disposal of available-for-sale investment	**–**	5,761
Net (loss) gain on held-for-trading investments	**(16,905)**	8,756
Finance costs	**(235)**	(968)
(Loss) profit before taxation	**(12,715)**	14,025
Taxation	**(9,442)**	(16,757)
Loss for the period from continuing operations	**(22,157)**	(2,732)
Discontinued operations		
Profit for the period from discontinued operations	**–**	5,811,963
(Loss) profit for the period	**(22,157)**	5,809,231
(Loss) profit for the period attributable to:		
– Owners of the Company	**(19,406)**	5,807,145
– Non-controlling interests	**(2,751)**	2,086
	(22,157)	5,809,231

Continuing operations

Revenue

Our revenue from online game and other business for the three months ended 31 December 2014 was approximately RMB282.9 million, representing an increase of approximately 23.5% as compared to approximately RMB229.0 million for the three months ended 31 December 2013.

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

	Three months ended 31 December			
	2014		2013	
	RMB'000	**% of revenue**	RMB'000	% of revenue
PRC	**229,042**	**81.0**	205,178	89.6
Overseas	**53,838**	**19.0**	23,823	10.4
	282,880	**100.0**	229,001	100.0

The revenue derived from the PRC for the three months ended 31 December 2014 was approximately RMB229.0 million, representing an increase of approximately 11.6% as compared to approximately RMB205.2 million for the three months ended 31 December 2013. The increase in revenue derived from PRC was mainly due to the increase in revenue from (i) Calibur of Spirit Online; (ii) mobile technology and mobile marketing business; and (iii) mobile games.

The revenue derived from overseas markets for the three months ended 31 December 2014 amounted to approximately RMB53.9 million, representing an increase of approximately 126.0% as compared with that of approximately RMB23.8 million for the three months ended 31 December 2013. The increase in revenue derived from overseas markets was mainly contributed from mobile technology and mobile marketing business.

Cost of revenue

Cost of revenue for the three months ended 31 December 2014 increased by approximately 57.5% to approximately RMB36.4 million as compared with that of approximately RMB23.1 million for the three months ended 31 December 2013. The increase was mainly due to the increase in (i) server leasing fee; (ii) server depreciation; (iii) costs of mobile technology and mobile marketing business; and (iv) costs of education business.

Gross profit

Our gross profit for the three months ended 31 December 2014 was approximately RMB246.5 million, representing an increase of approximately 19.7% as compared to approximately RMB205.9 million for the three months ended 31 December 2013.

Gross profit margin for the three months ended 31 December 2014 was approximately 87.2%, which represented a decrease of approximately 2.7% as compared with the three months ended 31 December 2013.

Other income and gains

Other income and gains for the three months ended 31 December 2014 were approximately RMB32.5 million, representing an increase of approximately 121.0% as compared with the three months ended 31 December 2013. The increase in other income and gains was mainly due to the increase in (i) interest income; and (ii) government grants.

Selling and marketing expenses

Selling and marketing expenses for the three months ended 31 December 2014 increased by approximately 61.6% to approximately RMB51.2 million as compared with the three months ended 31 December 2013. The increase in selling and marketing expenses was mainly due to the increase in advertising and promotion expenses.

Administrative expenses

Administrative expenses decreased by approximately 14.2% to approximately RMB120.9 million for the three months ended 31 December 2014 as compared with the three months ended 31 December 2013. The decrease in administrative expenses was mainly due to offset of the (i) increase in staff costs; (ii) increase in depreciation and amortisation; (iii) decrease in exchange loss on foreign currencies; and (iv) decrease in expenditure of domain name.

Development costs

Development costs increased by approximately 100.8% to approximately RMB89.3 million for the three months ended 31 December 2014 as compared with the three months ended 31 December 2013. The increase in development costs was mainly caused by the increase in (i) staff costs; and (ii) outsourcing fee.

Other expenses

Other expenses for the three months ended 31 December 2014 were approximately RMB12.0 million, which represented an increase of approximately 126.4% as compared with the three months ended 31 December 2013. The increase in other expenses was mainly caused by the increase in allowances on trade receivables.

Taxation

Taxation for the three months ended 31 December 2014 dropped by approximately 43.7% as compared with the three months ended 31 December 2013. The decrease was due to decrease in taxable profit.

Continuing and discontinued operations

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

Loss for the period attributable to the owners of the Company for the three months ended 31 December 2014 was approximately RMB19.4 million, whereas, 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.

(5) NON-GAAP FINANCIAL MEASURES

To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the use of certain non-GAAP measures is provided solely to enhance the overall understanding of the Group's current financial performance. These non-GAAP measures are not expressly permitted measures under HKFRSs and may not be comparable to similarly titled measures for other companies. The non-GAAP financial measures of the Group exclude share-based payments expense, amortisation of intangible assets arising on acquisition of subsidiaries, interest income on pledged bank deposits, exchange gain (loss) on pledged bank deposits, secured bank borrowings and redeemable convertible preferred shares, net gain (loss) on derivative financial instruments, finance costs and gain 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 2014 RMB'000	31 December 2013 RMB'000	**31 December 2014 RMB'000**	30 September 2014 RMB'000	31 December 2013 RMB'000
Non-GAAP operating profit	**284,711**	671,158	**13,540**	66,863	11,336
Non-GAAP profit (loss)	**220,514**	514,844	**4,098**	62,697	(5,421)
Non-GAAP profit (loss) attributable to owners of the Company	**225,374**	433,172	**6,849**	62,873	(7,507)

(6) BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

During the year under review, the Group focused on the development of its main online games business and strengthening its leading position in China's game industry. The Group has been implementing its strategy to enhance game development and operational capabilities. The Group took advantage of opportunities in the domestic Chinese and overseas online games industry, especially with regards to mobile-based platforms, to provide high-quality online game products to players around the world.

In order to achieve greater success, the Group devoted resources and leveraged its competitive advantages to develop its online education business, the first strategic business it has entered into since the sale of 91 Wireless to Baidu in 2013. With China's online education industry developing rapidly, the Group has created a comprehensive strategic plan to build a holistic, integrated eco-system in the online education space covering pre-class, in-class and after-class activities.

MMORPGS

During the year under review, the Group launched multiple new expansion packs and content updates for its existing online games in order to encourage players to be more active. The Group also launched a number of high-quality games and expanded its pipeline in order to generate continuous steady revenue streams from its game business.

NetDragon began beta testing of Salvation of the Shadow* (暗黑龍騎•浩劫) in April 2014. During the year under review, a Chinese expansion pack for Eudemons Online (魔域) which introduced a new Shadow Knight class that further optimized the game's balance. In October 2014, NetDragon also began beta testing of Goddess Era* (女神•天賦覺醒), the second Chinese expansion pack launched within the year that introduced the "Goddess Gifts" system. Players are able to enhance their characters' attributes free of charge which enhances gameplay and increases player stickiness. The Group's other flagship game, Conquer Online (征服) launched two class-updated versions in simplified Chinese - Wrath of the Trojans (勇士崛起) and Second Ninja War (忍者翻身). The new versions updated the game's class systems. NetDragon also launched King of Kungfu (功夫之王), a new expansion pack in October 2014. By adding a class to the game, the expansion pack increased user stickiness and increased revenues. English, French, Spanish and Arabic versions of Conquer Online's (征服) expansion pack were also launched in the overseas markets. Revenue generated by the English version of Conquer Online (征服) reach an 11-year high in December 2014, which enhanced the competitiveness of the game in various countries and regions worldwide. A number of the Group's other games also launched expansion packs. Way of the Five (開心) launched three Chinese expansion packs during the year. Mecho Wars, an expansion pack for Zero Online (機戰) was launched in September 2014. The continuous launch of new expansion packs aided in generating steady growth despite intense game industry competition which demonstrates the Group's extensive game development and operation capabilities.

* *For identification purpose only*

The Group further expanded its pipeline in order to provide players with more diversified products. Calibur of Spirit (英魂之刃), NetDragon's first Multiplayer Online Battle Arena (MOBA) micro-client game, recorded strong operational metrics across every indicator since its testing in May 2013. Calibur of Spirit (英魂之刃) was selected for the World Cyber Arena ("WCA") held in Yinchuan, China in October 2014. This marked the Group's first game selected for the WCA and was the only China-developed competitive game to participate in the WCA. The game generated a record high of over RMB10 million in monthly gross revenue in October 2014, demonstrating the attractiveness of the game's fiction and fantasy elements towards players as well as the Group's world-class game-design and development capabilities. The Group also signed an exclusive China licensing agreement for Calibur of Spirit (英魂之刃) with Tencent near the end of 2014, and NetDragon is confident that revenue from this game will grow substantially as large scale publicity campaigns get underway and new content updates are launched.

Mobile Games

Solid progress continued in the Group's mobile gaming business in 2014 as the Group leveraged its extensive experience in web games as well as developing and operating MMORPGs.

In an effort to extend the brand recognition and user stickiness of the Group's flagship game, Eudemons Online (魔域), the Group developed a mobile version of this game called Eudemons Online Pocket Version* (魔域口袋版) which began beta testing in May 2014 with the non-deletion testing of its Android version being launched in September 2014. The game was well received by players and has recorded excellent results. In order to extend the life cycle of its other mobile games, the Group released new expansion packs including The Pirate* (大海盗), Crazy Tribe* (瘋狂部落) and Celestial Saga* (戰蒼穹) during the year. In particular, the Arabic iOS version of The Pirate* (大海盜) has been enormously popular across the Middle East and North Africa with record high downloads since its update was launched during the first quarter of 2014.

To ensure optimal game quality before official open-beta testing, the Group has been testing multiple versions of the mobile games which are currently under development. Blade & Sword* (最江湖), the Group's self-developed 2.5D martial arts role-play mobile games, went through channel testing in May 2014. The Group also signed an exclusive licensing agreement for the Chinese version of Blade & Sword* (最江湖) with one of China's leading mobile game publishers in August 2014. The game began deletion beta testing in November 2014. Martial Overlord* (武魂天下), a 3D martial arts action mobile game began first closed beta testing in August 2014 and channel testing in November 2014.

* *For identification purpose only*

Online and Mobile Education

During the year under review, the Group made very strong progress in research and development, pedagogy integration, content partnership and acquisition for its online and mobile education business during the year under review.

Research & Development

The Company's educational product design and R&D team currently comprises of over 350 staff. With world-class leadership, the team focuses on the design and development of both software and hardware, and over the course of 2014, has achieved many milestones in the development of high-quality and differentiated software. The Company's 101 student tablet, which has also gone through multiple design iterations, is expected to be launched during the third quarter of 2015. The Company's product development roadmap to create a holistic, integrated total-solution for online and mobile education remains unchanged. The initial version of the commercialized product will be focused on enabling best-in-class interconnectivity in the classroom, and will create true value through a transformational yet easy-to-learn educational solution for teachers and students. The Company will update the market when more information on product launches is available. In addition, the Company expects to officially open a Research Lab in Beijing in the coming months to extend its talent acquisition reach. The current plan is to scale this office to hundreds of R&D staff within one to two years to accelerate educational research and development.

Pedagogy Integration

The Company continues to deepen its partnership with Beijing Normal University, China's top education university, to ensure the most effective pedagogy is being developed and integrated based on collaboration with proven hands-on educators. In November 2014, the Company signed an agreement with Beijing Normal University to jointly research e-classroom design in an effort to develop insight into how software and hardware can best be integrated with various teaching models in a classroom learning environment. On 18 March 2015, the Group's education subsidiary and Beijing Normal University also announced the establishment of the Smart Learning Institute which will provide a unique platform to integrate the most advanced pedagogy with the Company's mobile Internet expertise and technological know-how. The Company believes the accumulation and understanding of pedagogy through its partnerships with top-tier universities and institutions including Beijing Normal University, will form a significant barrier to entry.

Content Partnerships

The Group signed a Memorandum of Understanding in November 2014 with a subsidiary of Pearson (Beijing) Management Consultancy Company Limited ("Pearson"), the globally renowned leading education company, and Beijing Normal University, to develop a smart education solution. This collaboration will leverage Pearson's rich K-12 educational content resources to build China's leading integrated smart education solution. In addition, the Company is also in discussions with numerous major publishers and content partners to enrich the content on its platform.

Other developments

The Group was officially admitted to the Education Informatization Standard Committee under the Ministry of Education in November 2014. Such membership will allow the Group to participate in the forming of technology standards, which will be conducive in developing the right products that meet or exceed regulatory standards. The Group is one of a very select few tier-one mobile Internet companies who are members of the committee.

Strategic Merger with Cherrypicks

On 3 June 2014, NetDragon entered into a sale and purchase agreement to acquire Cherrypick's mobile solution business. Cherrypicks is a leading enterprise in mobile technology and mobile marketing in the Asia Pacific region. The acquisition was completed on 21 July 2014. The strategic merger will provide the Group with a team of world-class, innovative mobile solutions developers with strong capabilities to build cutting edge mobile products for global markets in areas including enterprise software, mobile marketing, mobile commerce and mobile education. Further details of the Sale and Purchase Agreement and the Acquisition are set out in the Group's announcement dated 3 June 2014 and 21 July 2014 respectively.

Cooperation and Communication in the Mobile Internet Industry and Communication Technology between Fujian Province and Hong Kong

On 5 September 2014, NetDragon signed a memorandum of understanding ("MoU") with Hong Kong Cyberport Management Company Limited ("Cyberport") and Hong Kong Wireless Technology Industry Association Limited ("HKWTIA") for a term of one year. The three parties established a strategic partnership to further grow the local information and communication technology ("ICT") industry. The MoU covers the following four aspects: professional training, the introduction of local mobile applications to the Mainland China market, internship programs and digital classrooms. All three parties will jointly support and help Hong Kong-based IT companies and talent to promote their business in Mainland China and will provide talent training programs for them.

Project in 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 the Group providing construction and planning services. It is a key project in Fujian province, 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 to exchange, animation derivatives, wireless mobile Internet education application and elite education. During the year under review, the progress of the four phases was as follows:

I Phase I covers an area of 246.8 mu. It is used by the Group for research and development, exchange and quality control development. Currently, several main buildings have been constructed, including the Group's office building and Pentagonal Building* (五角大樓), with a gross floor area of approximately 33,000 square meters. Operations are currently underway.

II Phase II covers an area of 296.5 mu. This is the core animation research center of the Group. After two years of construction, the main building of the Group's landmark building , Enterprise* (企業號), was officially put into operation on 18 May 2014. Other ancillary buildings are under construction within the area.

III Phase III covers an area of approximately 600.1 mu of which 345 mu has been earmarked for online education industrial zone, 105 mu has been slated for commercial and residential use, 48.8 mu was designated for apartments for senior management. The remaining 101.3 mu will be used for future mobile game business research and development purpose.

Haixi Animation Creativity City's land grant application is currently being processed. Part of the commercial and residential zone of Haixi Animation Creativity City, covering an area of 105 mu was designated for commercial and residential use of Changle Western Taiwan Straits Creative Valley. Residential units will be sold to employees following the completion of the project.

IV The Group also places great emphasis on the development of education segment. It is planning to construct a new Changle campus for Fuzhou Software Technology Vocational College, which has a student enrolment of approximately 8,000 and occupies an area of 536.2 mu. Currently, the project has completed planning, design and land planning permission, 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 Project will help form a full-scale 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*

Corporate Milestones and Awards in 2014

Year 2014	Corporate Milestones/Recognitions
May	• Fujian TQ Digital Inc.「福建天晴數碼有限公司」("TQ Digital") received the "National Key Culture Export Enterprise Certificate 2013-2014"「2013-2014年度國家文化出口重點企業證書」from the Ministry of Commerce of the People's Republic of China • Fujian NetDragon Websoft Co., Ltd.「福建網龍計算機網絡信息技術有限公司」("NetDragon (Fujian)") was awarded the "Plaque of Honour-2013 Top 10 Provincial Enterprises" *「2013年度省文化企業十強牌匾」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」 • NetDragon (Fujian) was honoured as the "Top 30 Cultural Enterprises in the PRC at the Sixth Presentation Ceremony"*「第六屆全國文化企業三十強」jointly organized by Guang Ming Daily (光明日報) and Economic Daily (經濟日報)
July	• NetDragon (Fujian) received the "Hope Project Medal"「希望工程獎牌」from Fujian Provincial Youth Development Foundation of the Communist Youth League Fujian Provincial Committee「共青團福建省委福建省青少年發展基金會」
August	• NetDragon (Fujian) received the "Plaque for Deputy Chairman Entity of the Third Council"「第三屆理事會副理事長單位牌匾」granted by Fujian Provincial High-Tech Industry Development Promotion Association「福建省高科技產業發展促進會」
September	• TQ Digital was recognised as a "Key Culture Export Enterprise in Fujian Province"「福建省文化出口重點企業稱號」by the Department of Commerce of Fujian Province「福建省商務廳」
October	• NetDragon (Fujian) received the "2013-2014 Fujian's Internet Industry Self-discipline and Contribution Award"「2013-2014年度福建省互聯網行業自律貢獻獎牌匾」from Fujian Internet Society「福建省互聯網協會」
December	• TQ Digital received the "2014 Top 10 Games Award Certificate"「2014年度中國"遊戲十強"大獎證書」from China Audio-video and Digital Publishing Association「中國音像與數字出版協會」

* *For identification purpose only*

(7) LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2014, we had bank deposits, bank balances and cash and pledged bank deposit of approximately RMB3,273.2 million (31 December 2013: RMB4,463.0 million), out of which approximately RMB236.8 million (31 December 2013: RMB107.4 million) has been pledged to bank to secure bank borrowing.

As at 31 December 2014, the Group had net current assets of approximately RMB3,148.0 million as compared with approximately RMB3,776.0 million as at 31 December 2013.

(8) GEARING RATIO

The gearing ratio (consolidated bank borrowing/consolidated total equity) was 0.05 (31 December 2013: 0.02). As at 31 December 2014, total bank borrowing of the Group amounted to approximately RMB236.8 million (31 December 2013: RMB104.7 million fixed-rate loan) was floating-rate loan.

(9) CAPITAL STRUCTURE

As at 31 December 2014, the Group's total equity amounted to approximately RMB4,617.4 million (2013: RMB4,622.9 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, the United States of America ("USA") and Indonesia and the business transactions conducted there during the year were mainly denominated and settled in HKD, USD and IDR 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 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties 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 spreading over a number of counterparties and customers.

(12) LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's financial liabilities (including trade and other payables, amounts due to 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 ahead, the Group will follow a two-pronged strategy. On the one hand, the Group will continue to develop new titles to expand its game pipeline, as well as provide content updates and new expansion packs for its existing games. On the other hand, the Group will focus in developing, commercializing and scaling its online and mobile education products.

MMORPGS

Calibur of Spirit (英魂之刃)

Calibur of Spirit (英魂之刃), NetDragon's first in-house developed micro-client MOBA game, is licensed by Tencent and was officially launched on 16 January 2015. Calibur of Spirit (英魂之刃) generated record-high Daily Active User of 7 million in January 2015 and monthly gross revenue exceeding RMB21 million in February 2015. Meanwhile, a Portuguese and Spanish version of the game has been completed and is expected to begin testing across Latin America and European region during the first half of 2015. Looking forward, marketing campaigns for Calibur of Spirit (英魂之刃) in 2015 will continue and are expected to boost revenue growth.

Tiger Knight (虎豹騎)

Tiger Knight (虎豹騎) is an in-house developed 3D action war game based on the popular Three Kingdoms period which are enjoyed by domestic and international players. The game also has a multi-player mode which supports more than one players at the same time. The Chinese expansion pack began the first round of internal closed beta testing in November 2014, and is expected to start the second round of internal closed beta testing in the second quarter of 2015. Its English version is also expected to start beta testing by the end of 2015 on the Steam platform.

Mobile Games

Eudemons Online Pocket Version (魔域口袋版)*

Eudemons Online Pocket Version* (魔域口袋版), a mobile version of Eudemons Online (魔域), inherited the classic gaming of its client version. Core gameplay includes players with multiple pets, monster breeding and XP grinding which have been adapted to meet the needs of mobile users. The game's graphics and operations have been optimized for mobile devices. The iOS version was officially launched on the App Store in January 2015. Its Android version began beta testing at the same time.

Blade & Sword (最江湖)*

Blade & Sword* (最江湖) is a 2.5D martial arts role playing mobile game developed using the Group's proprietary engine. The game is based on martial arts adventures which enable players to experience a grand open world. The iOS version is currently under deletion closed-beta testing while the Android version is expected to begin deletion closed-beta testing during the first quarter of 2015.

Waku & Maou (暗黑戰魂)*

Waku & Maou* (暗黑戰魂) is a real-time mobile strategy collectible card game. It offers players a gaming experience similar to that of Journey to the West, a classic Chinese novel, which features new plots lines. The game allows players to indulge in a rich and fun strategy card game with magnificent landscapes. 37Games has been licensed to operate the game. The Android version began closed-beta testing in January 2015, with the iOS version expected to begin beta testing in the first half of 2015.

Martial Overlord (武魂天下)*

Martial Overlord* (武魂天下) is an in-house developed 3D martial arts action mobile game. This game provides a new gaming experience to players by providing a special martial arts soul breeding system, delicate scenes and a real-time fight mode. The game is currently undergoing channel testing and is expected to begin its second closed-beta testing in March 2015.

** For identification purpose only*

Online and Mobile Education

Channel Build-Out

The Company is in the process of building a nationwide school distribution network for its educational products. Currently, the Company is in discussion with over 20 regional and local distributors and has secured distribution agreements with a number of them. The Company is also in active discussions with several channel partners in addition to conventional distributors.

Mergers & Acquisitions (M&A)

The Company is in advanced discussions with multiple major acquisition targets in the online education space. If such acquisitions materialize, the Company's competitive position in the market will further be enhanced.

Fundraising

In February 2015, the Group's education subsidiary closed a Series A equity fundraising round of USD52.5 million led by globally renowned investors, at a valuation of USD477.5 million.

CONCLUSION

2014 has been a year of building and solidifying the foundation for the Group's new education business. Such foundation provides the readiness for the Group to capitalize on an inflection point in 2015 as development of the initial commercial version of its online education ecosystem reaches final stage. In the mean time, the Group's online games business continued to grow healthily during the year on the back of a proven and experienced team of game developers and innovators.

As a listed mobile internet company with unparalleled focus and commitment in transforming the online education space, the Group is in a very unique position to succeed in a market that is desperate for leadership. Proven human capital with scale, a strong balance sheet, mobile internet DNA, track record in scaling mobile businesses and a visionary leadership and management team are all core competencies that will enable the Group to continue to build tremendous value for our shareholders and our customers.

CORPORATE CULTURE

Innovation

Innovation is the driving force behind the success of the Group. We embrace changes, continuously explore and attempt new and more effective concepts and methods, in order to launch new technologies and new products.

Customer comes first

Customer comes first is our philosophy in product design and services. Group staff have an acute judgment on market and customers. Through technology and services, customer requirements are satisfied and steered quickly, and through continuous improvements in customer experience, we can create value for customers and acquire competitive advantages. Each staff also adheres to the concept even when providing services to our internal customers.

Learning

Learning is a habit of every staff in the Group. We always have curiosity and the urge to learn. We will proactively invest time and effort in learning, apply the skills we have learnt and expand our capabilities. We are good at self-examination and draw conclusions from happenings around us, and are willing to share and exchange ideas with others to promote mutual teaching and learning.

Pursuit of excellence

Pursuit of excellence is a working standard for our staff. We aim for high aspirations and excellence, self-challenge and surpassed expectations. We plan several steps ahead, striving to provide customers with the highest quality products and services, and constantly challenge our own potentials while doing our best.

Passion

We are passionate about work and collaboration with colleagues. We consider our work as a career and contribute our full efforts. We enjoy the satisfaction from work, we are optimistic and positive, and are able to disseminate such positive energy in the daily interactions with colleagues, together with mutual trust, support and encouragement.

Fairness

Fairness is the working atmosphere we promote. The Group strives to create a working atmosphere with fair allocation, fair procedures, public information and mutual respect. Through a public process and open supervision, the Group ensures that results are fair and hopes that all employees can treat everything and everyone objectively and equally.

Aggressiveness

We are featured by aggressiveness. We like to distinguish ourselves by mastering opportunities, expressing opinions and ideas, being responsible for or participating in the projects which arouse our interest, gaining resources and support to win market opportunities and honestly communicating with others on development requirement. We believe that if everyone volunteers to put up their hands, internal impetus and team power will be inspired to expand our business.

CORPORATE SOCIAL RESPONSIBILITIES

Youth Business China (Fujian, Haixi)

In 2014, Liu Luyuan, Chief Executive Director of the Company, continued to act as the director of the Youth Business China (Fujian, Haixi) ("Haixi Youth Business") and provide public welfare to support youth business in 2014. During the year under review, Haixi Youth Business conducted various kinds of business training sessions and over 5,500 participants joined these sessions. It organized approximately 100 sessions of mentor club activities and youth club activities. It granted more than RMB 4 million loans for business start-ups. Over the years, Haixi Youth Business has helped cumulatively more than 2,000 youngsters to start up their businesses, with nearly 90% of repayment rate. In addition, during the year under review, Haixi Youth Business launched an event of "YBC Charity Tour for Entrepreneurship*" (大道之行一創業導師九九公益行) to invite more than 140 mentors to provide coaching and consultation as well as on-the-ground volunteer services to local youngsters at numerous regions in Fujian province, who intended to start their own ventures. More than 400 youngsters have benefited from the event, and more than 60 business ventures of the youngsters have been visited, thereby enhancing their confidence and enthusiasm for venture creation.

* *For identification purpose only*

STAFF RELATIONSHIP AND WELFARE

HUMAN RESOURCES

The Group had its overall staff headcount of 3,299 as at 31 December 2014. During the year under review, the Group has achieved significant improvement in human resources management.

I. The year 2014 marks an important transformation of the Group's human resources strategy. The Group has made simultaneous efforts in areas, such as education, enterprise application software and games, by recruiting outstanding talents that fulfill the requirements for the development of the Group. During the year under review, the Group recruited nearly 1,200 persons, among which research and development staff accounts for over 50% of new recruits, providing a strong and powerful basis for the Group's rapid development. In addition, the Group has also organized Campus Recruitment Talks at multiple cities throughout the country, which have received overwhelming response with the number of resume received rocketed nearly 450% as compared to the previous year. This has actively promoted the Group in establishing and promoting its brand image as an elite employer.

II. Comprehensively advancing its talent promotion projects, the Group has finished the analysis of the job positions in product lines and program management, having management positions clearly defined and responsibilities delineated, as well as formulating ability requirements and case studies. In order to help manage each project team more systematically, the Group has also finished assessing the product management abilities of the members of pilot projects as well as evaluating their team climate. The members were also motivated to formulate action plans, thus laying a solid foundation to foster and enhance the capability of the Group's future management.

III. The Group has implemented a project management model, segmenting and arranging the work contents, responsibilities and assessment criteria in order. The Group has also completed the "Performance Assessment Guidelines for Project Management Model*《項目制績效考核設置指引》". During the year under review, the Group has completed the assessment of the employees of a number of its core projects.

* *For identification purpose only*

TRAINING AND TRAINING SYSTEM

STAFF TRAINING

NetDragon University is the Group's training base for management and technical talents. As a powerful supporter and a key component of the Group's overall strategies, NetDragon University is dedicated to providing professional and systematic training for the Group's staff, and has nurtured many groups of high-level technical and management talents through effective organization of learning to increase the Group's core competitiveness continuously.

RESULTS ACHIEVED IN 2014

In order to facilitate transition of the Company into a design-oriented company, in addition to business training models mainly consisting of training courses and workshops, accreditation was also adopted as a supplemental means to motivate business training, while promoting a new corporate culture and further enhancing the original business training of management training, technical training and development training at the same time.

As of to date, a total of 245 training sessions and workshops and about 15 accreditation sessions were organized with nearly 5,500 participants joined these programmes.

"Accreditation" activities

The Group's safety technology accreditation was continuously implemented in 2014 and it was divided into monthly regular accreditation and departmental customized accreditation. During the year under review, the safety technology accreditation examination programme has been implemented in 13 sessions. The total number of staff who participated in the safety technology accreditation examination exceeded 700, representing a passing rate of over 75%.

"Course Training"

In respect of application of advanced management, by introducing the management posts consultation project, the Group conducted overall analysis on the Company's management posts of the programme development sequence and product management sequence in order to determine the definition and competence criteria of the management posts; evaluation feedback and subsequent action plan on six project teams were completed. Six toolboxes were sorted out and one games-based microlecture was produced, being the Star Trek-Introduction of Management, in order to quickly reproduce experience, fully improve the management effectiveness and efficiency the management members; and improve transformational capacities of leaders in the management posts in order to complement the future development needs of the Group. Furthermore, participants of the Management Dream Project formed several learning and practice teams through self-learning to improve their management skills through the learning practices, which contributed the effective management talent reserve for the Company to cope with the future needs of the Group.

In respect of technical training, by carrying on the Group's concept of transforming into a "company focusing on design", NetDragon University officially kicked off the "Design Elite Practical Training Camp", one of the training projects newly implemented this year. The programme sum up the successful experience of product planning and refine the course training through the "Design Elite Practical Training Camp". During the year, 14 sessions of workshops were conducted and over 150 qualified product designers were fostered to join in each product planning and design team of the Group.

To foster in-depth collaboration among teams, the Group carried out regular expanded team training in accordance with its overall and needs of its various departments so as to achieve better team training and customize in-depth experience training.

The IT industry is trending towards "Mobile Internet". In order to respond to the online education trend, make the best use of the Group's existing part-time lecturers and help new recruits master their duties more quickly, the Group designed five microlectures and the workshops in the first phase and used MOOC to attract part-time lecturers and interested staff members to learn by themselves together with offline workshop to facilitate the completion of their preparation of technical training microlectures. More than 100 microlectures were designed and prepared and nearly 30 microlecture designers were accredited. Meanwhile, the Group refined the microlecture assessment criteria so as to facilitate its departments to grasp the best practices that they should know and lowered the technology sharing threshold so as to facilitate the company-level open class and flipped class.

"Cultural Publicity and Guidance"

In promoting the implementations of the Company's new culture, by assessing the values of management, launching certified training program, initiating elementary culture examination for all staff members, organizing Corporate Cultural Atmosphere Creating Contest, the Company accentuate the cultural atmosphere further. The Company also enhanced its promotion module, operated the culture promotion account, supported the promotion of department projects and held manager forum in order to further promote our culture.

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 43, Chairman of the Board and 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. Currently, Mr. Liu is committed to lead the company's transformation to an international design-oriented enterprises, and actively promote Internet education, leading the Group to become China's leading online education industry force. Apart from his management and leadership, Mr. Liu constantly holds training seminars to further enhance the development of our human resources. The Group was honoured as the "Top 30 Cultural Enterprises in the PRC at the Sixth Presentation Ceremony" (第六屆全國文化企業三十強) and "Top 2000 Forbes Global business" (福布斯全球企業兩千強) in May 2014. 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, Fujian business Building Haixi Outstanding Contribution Award* (「福建閩商建設海西突出貢獻獎」) and Fujian Donations of Non-public Ownership Economy Welfare Outstanding Contribution Award* (「福建非公有制經濟人士捐贈公益事業突出貢獻獎」) in June 2013. Mr. Liu 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. As the developer of "91 assistant" software first person, Mr. Liu received the Progress Prize Second Award in Fujian Province Science and Technology* (「福建省科學技術進步二等獎」) in January 2014. 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 41, Executive Director, Chief Executive Officer, Compliance Officer and one of the authorized representatives of the Company

Mr. Liu also serves as CEO of TQ Digital and director of NetDragon (BVI). Mr. Liu currently shoulders a number of social services, such as acting as director general of the West Taiwan Strait Youth Entrepreneurs Foundation, chairman of Fujian Youth Development Foundation, vice-chairman of the Fujian Youth Federation, executive vice-chairman of Fujian Enterprises and Entrepreneurs Confederation, chairman of Fujian Youth Entrepreneurs Association, is a standing committee member of the All-China Youth Federation, as well as a member of the CPPCC Fujian Provincial Committee.

As an outstanding representative of the new social community taking part in the construction of the Fujian West-strait Economic Zone, Mr. Liu has been engaged in the operation and management of software enterprises and technology development since his graduation from Chengdu Electronic Technology University in 1997. He has decades of experience in the management and administration of technical institutions. In the company, Mr. Liu is in charge of overall management. He has setup the project management department, and introduced the game project management system to ensure a level of standards for game products. Meanwhile, as the company's spokesman, he is also responsible for coordination with governmental departments, media, and other external parties, under which he has built up the company's public reputation. By taking part in various activities on behalf of the company, he shared new ideas and new technologies in animation and game industry. Furthermore, the West Taiwan Strait Youth Entrepreneurs Foundation was setup to cultivate talent. This foundation, with up to RMB2 million in donations each year, offers enterprise training, interest free loans, and many other public services to support the game industry and youth business. Mr. Liu was awarded the "May 4th Youth Medal", and the titles of "Brilliant Entrepreneur", "Outstanding Young Person", "Excellent Talent", and "Fujian Entrepreneur with Outstanding Contributions". Since 2013, Mr. Liu has won many honors, such as "Outstanding Contributions in Fujian Economic Construction", "2012 Outstanding Entrepreneur in the 9th China Game Industry Annual Meeting", and "Fujian Outstanding Entrepreneur".

Mr. Liu graduated from Chengdu Electronic Technology University in 1997, with a degree in electro-mechanical engineering, and later received an adjunct professor certificate from Fujian Normal University. Mr. Liu is a brother of Liu Dejian, and cousin of Zheng Hui.

DIRECTORS AND SENIOR MANAGEMENT

Zheng Hui, aged 46, Executive Director

Mr. Zheng is an Executive 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 the legal representative, director and manager of Fuzhou Tiannuo Network Technology Limited* (福州天諾網絡科技有限公司) and Fuzhou Changyu Network Technology Limited* (福州暢裕網絡科技有限公司), the legal representative and director of Fujian Tianquan Education Technology Limited* (福建天泉教育科技有限公司) since 2012, the legal representative and Director of Fujian Huayu Education Technology Limited* (福建華漁教育科技有限公司) and the legal representative, executive director and manager of Fujian NetDragon Art Communication Limited* (福建網龍藝術傳播有限公司). 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.

Chen Hongzhan, aged 42, 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.

* *For identification purpose only*

NON-EXECUTIVE DIRECTOR

Lin Dongliang, aged 52, 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 49, 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 the 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 also currently the Chairman of the board of directors of a leading social media company, "Weibo", which is a publicly listed company in Nasdaq, the Co-Chairman of the board of directors of a real estate services company "E-House", which is a publicly listed company in New York Stock Exchange, and a director of a leading real estate O2O integrated services platform "Leju Holdings", which is a publicly listed company in New York Stock Exchange. Mr. Chao was a certified public accountant and the member of AICPA. 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 49, 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 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 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 (1) New Universe International Group Ltd between June 2010 and July 2012; (2) Yuexiu REIT Asset Management Limited between November 2005 and October 2014 and (3) Far East Holdings International Limited between March 2012 and November 2014. 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 42, 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 investments 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 of TOM Online Limited and an investment banking associate of the New York office of Lehman Brothers Inc.

SENIOR MANAGEMENT

Yam Kwok Hei, Benjamin, aged 39, Chief Financial Officer and Qualified Accountant

Mr. Yam joined NetDragon as our Chief Financial Officer in October 2013 and is responsible for financial management, investor relations and overseas strategic business development. 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.

Wu Jialiang, aged 38, 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 15 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.

Yu Biao, aged 45, 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 44, 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.

Mao Xinsheng, aged 42, Chief Technology Officer

Mr. Mao joined NetDragon as our joint Chief Technology Officer (CTO) in December 2014. He is in charge of the global technology and engineering for all the non-game business in NetDragon.

Mr. Mao is well-respected for his more than 17 years of successful professional experience in both US and China. He has worked in a very broad spectrum of technologies and complicated industry solutions, including: Internet searching, voice, mobile, Web Services & SOA, Web 2.0, Cloud Computing and Big Data. He is a veteran in IT for his extensive experience in playing the various roles of researcher, lead developer, architect and technical director. Before joining NetDragon, he was the CTO of China R&D Center and Director of Innovation Institute of a very well-known leading global IT company. He was in charge of the global development of the Cloud platform for this company, guiding a team of 5,000 engineers. Also, he is a key decision maker in its global technology committee which defines the strategy and directions of this company.

Mr. Mao graduated from Peking University with Master Degree of Computer Science & Engineering.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Hak Kin, aged 37, Financial Controller, Qualified Accountant, Head of Compliance and Corporate Affairs and Company Secretary

Mr. Lau joined the NetDragon as Financial Controller and Head of Compliance and Corporate Affairs in February 2014 and was appointed as the Company Secretary of the Group in September 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.

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 2014.

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.

Details of the principal activities of the Company's principal subsidiaries are set out in note 47 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 2014 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 97.

The interim dividend of HKD0.20 per share amounting to approximately RMB81,277,000 for the six months ended 30 June 2014 was paid on 23 September 2014.

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 Monday, 15 June 2015 to shareholders whose names appear on the register of members of the Company on Friday, 29 May 2015, amounting to approximately RMB78,865,000.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired certain property, plant and equipment for the year ended 31 December 2014.

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2014 set out in note 14 of Notes to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements of the Company's issued shares for the year ended 31 December 2014 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 2014 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2014 and 2013, the Company had reserves available for distribution to shareholders, which comprises the dividend reserve of approximately RMB78,865,000 (2013: approximately RMB79,977,000) and retained earnings of approximately RMB419,154,000 (2013: approximately RMB110,032,000) of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue from sales of goods or rendering of services attributable to the Group's five largest customers and the Group's largest customers accounted for approximately 5.7% and approximately 2.8%, respectively, of the Group's total revenue for the year. The aggregate purchases attributable to the Group's five largest suppliers and the Group's largest supplier accounted for approximately 23.0% and approximately 9.0%, respectively, of the Group's total purchase for the year.

So far as is known to the Directors, none of the Directors, their associates, or shareholders (which to the best knowledge of the Directors owned more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest suppliers and customers during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report 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

The Directors' profile is set out on page 46 to 50.

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

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

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

As at 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the 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	253,982,257(L)	50.81%
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 beneficiary of a trust	255,510,057(L)	51.12%
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	253,982,257(L)	50.81%

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	13,090,019(L)	2.62%
Chao Guowei, Charles *(Note 5)*	The Company	Beneficial owner	818,000(L)	0.16%
Lee Kwan Hung *(Note 6)*	The Company	Beneficial owner	1,306,019(L)	0.26%
Liu Sai Keung, Thomas *(Note 7)*	The Company	Beneficial owner	1,235,019(L)	0.25%

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 voting shares of DJM Holding Ltd., which in turn is interested in 38.23% of the issued share capital of the Company.

   Liu Luyuan is interested in 5.27% of the issued voting shares of the Company which is represented by interest held as a beneficiary of a trust of 26,344,800 shares.

   197,019 shares were held by each of Liu Dejian and Liu Luyuan as beneficiary interest of a trust.

   Zheng Hui is interested in 4.64% and 100.00%, respectively, of the issued voting shares of DJM Holding Ltd. and Fitter Property Inc., which in turn is interested in 38.23% and 3.81%, respectively, of the issued voting shares 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 voting shares of Eagle World International Inc., which in turn is interested in 2.78% of the issued voting shares 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 50.09% of the issued voting shares of the Company through their direct and deemed shareholding in all of DJM Holding Ltd., a trust in favour of Liu Luyuan, Fitter Property Inc. and Eagle World International Inc..

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

Notes:

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 2.62% of the issued voting shares of the Company which is represented by personal interest of 1,627,800 shares, interest held as a beneficiary of a trust of 11,306,019 shares and the rest being underlying shares of interest of 156,200 share options granted by the Company.

5. Chao Guowei, Charles is interested in 0.16% of the issued voting shares of the Company which is represented by the underlying shares of interest of 818,000 shares options granted by the Company.

6. Lee Kwan Hung is interested in 0.26% of the issued voting shares of the Company which is represented by beneficial interest of 588,019 shares and the rest being underlying shares of interest of 718,000 share options granted by the Company.

7. Liu Sai Keung, Thomas is interested in 0.25% of the issued voting shares of the Company which is represented by beneficial interest of 417,019 shares and the rest being underlying shares of interest of 818,000 share options granted by the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2014, 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 TRANSACTION, ARRANGEMENT OR 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 transaction, arrangement or contract 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.

* *For identification purpose only*

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 2014, 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 of Shareholder	Name of Company	Capacity and nature of interests	Number of shares and underlying held or amount of registered capital contributed *(Note 1)*	Approximate percentage of shareholding
DJM Holding Ltd.	The Company	Beneficial owner	191,078,100(L)	38.23%
NetDragon (Fujian)	NetDragon (Shanghai)	Beneficial owner	RMB990,000(L)	99.00%
IDG Group *(Note 2)*	The Company	Beneficial owner	78,333,320(L)	15.67%
Ho Chi Sing *(Note 2)*	The Company	Through controlled corporations	78,333,320(L)	15.67%
Zhou Quan *(Note 2)*	The Company	Through controlled corporations	73,490,095(L)	14.70%
First Elite Group Limited *(Note 3)*	The Company	Beneficial owner and through controlled corporation	26,423,607(L)	5.29%
SMP Trustees (Hong Kong) Limited *(Note 3)*	The Company	Trustee	26,423,607(L)	5.29%

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 2.17%, 10.40%, 2.13% and 0.97% 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. First Elite Group Limited is controlled by SMP Trustees (Hong Kong) Limited, which held on trust for Richmedia Holdings Limited.

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 2014.

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

* *For identification purpose only*

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 2014, no ND Other Contract has been entered into.

Due to the business integration, NetDragon (Shanghai) was dissolved on 16 January 2015.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS

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").

On 10 February 2015, Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) have entered into the Control Documents. Pursuant to the Specific Waiver granted by the Stock Exchange to the Company at around the time of Listing, the framework of the ND Structure Contracts may be cloned in relation to any existing or new wholly foreign owned enterprise, operating company or FITE (as defined below) that the Company might wish to establish, without obtaining the approval of the Shareholders on terms that the protections for the Shareholders described in the Specific Waiver will apply.

The Control Documents are cloned from the ND Structure Contracts such that Fujian Tianquan will receive service fees from Fujian Huayu, and the total amount of which shall be determined by the Best Assistant Management Committee (as defined below) with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements under 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; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000.

The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of Fujian Huayu will be enjoyed by Fujian Tianquan and will give flexibility to the Best Assistant Management Committee to implement the Control Documents and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

As the Control Documents are cloned from the ND Structure Contracts, transactions under the Control Documents are exempt from Shareholders' approval.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

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

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 2014 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).

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"), 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") on 22 August 2012 and 12 December 2013 respectively.

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.

The management committee of Fujian Huayu has passed the unanimous resolutions to terminate the Best Assistant Structure Contracts, technical support services agreement, Best Assistant agreement for the exclusive right to acquire equity interest and assets, Best Assistant equity holders' voting rights proxy agreement and Best Assistant equity interest pledge agreement with effect from 1 January 2014.

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Cooperation Framework Agreement

On 10 February 2015, Fujian Tianquan and Fujian Huayu have 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 valued-added telecommunications services relating to the online educational softwares business development for and the operation of the online 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; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000. This principle will ensure that all economic benefits generated from the operation of Fujian Huayu in each financial year will be enjoyed by Fujian Tianquan as service or license fees, and will give flexibility to the Best Assistant Management Committee to implement the Best Assistant Control Documents and its underlying principles more effectively in response to constantly changing the PRC laws and regulation.

As a result of the Best Assistant Control Documents, 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 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. Details of the agreement are set out below:

Date of agreement signed	Name of agreement	Summary of agreement	Terms of agreement
10-02-2015	Technical support service agreement	Fujian Tianquan will provide technical support services to Fujian Huayu	• For a indefinite term commencing from 10-02-2015, unless Fujian Huayu have transferred all its assets or equity interests to Fujian Tianquan or a party designated by Fujian Tianquan • Consideration of a per annum services fee determined as a percentage of Fujian Huayu annual gross revenues

CONNECTED TRANSACTIONS (Cont'd)

BEST ASSISTANT CONTROL DOCUMENTS (Cont'd)

Best Assistant Equity Interest Pledge Agreement

On 10 February 2015, Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) entered into an equity interest pledge agreement, pursuant to which all such equity holders granted to Fujian Tianquan a continuing first priority security interests over their respective equity interests in the registered capital of Fujian 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 Control Documents.

Best Assistant Exclusive Acquisition Rights Agreement

On 10 February 2015, Fujian Tianquan, Fujian Huayu and NetDragon (Fujian) entered into an exclusive acquisition rights agreement, 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 Proxy Agreement

On 10 February 2015, NetDragon (Fujian) entered into a 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 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.

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.76(2) 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).

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

1. Transaction in relation to the Tenancy Agreements between TQ Digital, NetDragon (Fujian) and Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. ("Fuzhou 851") (Cont'd)

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

   On 22 September 2013, TQ Digital, Fuzhou 851 and NetDragon (Fujian) entered into a novation agreement pursuant to which Fuzhou 851 agreed to change the tenant of the Existing Tenancy Agreement I from TO Digital to NetDragon (Fujian) until the expiry of the Existing Tenancy Agreement I on 21 January 2015.

   On 20 January 2015, NetDragon (Fujian) entered into the Renewal Tenancy Agreement with Fuzhou 851 to renew the Existing Tenancy Agreements for a period from 22 January 2015 to 21 January 2018. Fuzhou 851 is a connected person of the Company. As such, the transaction contemplated under the Renewal Tenancy Agreement constitute continuing connected transactions of the Company. The aggregate annual cap for the Renewal Tenancy Agreement based on the total annual rental payable under the Renewal Tenancy Agreement for each of the financial years ending 31 December 2015, 2016 and 2017 is RMB7,269,744 (equivalent to approximately HKD9,210,000).

   Further details of the Renewal Agreement are set forth in the announcement of the Company dated 20 January 2015.

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).

   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.

CONTINUING CONNECTED TRANSACTIONS *(Cont'd)*

2. Transaction in relation to Recreation Centre Agreement between TQ Digital and Fuzhou 851 (Cont'd)

   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 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).

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

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)

The annual caps for the transactions under the Service Agreement A for each of the financial years ended 31 December 2010, 2011 and 2012 are as follows:

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

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, 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.

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	**Year ended 31 December 2014**	**Year ending 31 December 2015**
	RMB	RMB	RMB
NetDragon (Fujian) under the New Service Agreement A			
Technical maintenance fees	3,977,000	4,326,000	4,569,000
After-sales service charges	18,560,000	20,187,000	21,322,000
	22,537,000	24,513,000	25,891,000

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

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

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 independent non-executive Directors have reviewed the above Transactions conducted during the year ended 31 December 2014 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 Agreement, the Recreation Centre Agreement, the Renewal Recreation Centre Agreement, the Service Agreement A and the New Service Agreement A 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 2014 as disclosed in the relevant announcements of the Company.

The transactions under the 851 Tenancy Agreements, the Renewal Tenancy Agreement, the Recreation Centre Agreement, the Renewal Recreation Centre Agreement, the Service Agreement A and the New Service Agreement A 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 Transaction, Arrangement or Contract" below.

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 Recreation Centre Agreement and the Service Agreement A of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified opinion containing the conclusion in respect of the ND Structure Contracts and the ND Other contracts which are in compliance with the Rule 14A.56 of the Listing Rules.

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)

   Also, the auditor has issued unqualified opinion containing the conclusions in respect of the Transactions under the 851 Tenancy Agreements, the Recreation Centre Agreement and the Service Agreement A set out above which are in compliance with the Rule 14A.56 of the Listing Rules.

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.

AUDIT COMMITTEE

The Company established the audit committee on 15 October 2007 which comprises three independent non-executive Directors, namely, Chao Guowei, Charles (chairman), Lee Kwan Hung and Liu Sai Keung.

The audit committee is primarily responsible for the review and supervision of the Group's financial reporting process and internal control system. It has met with the external auditors of the Group to review the accounting principles and practices adopted by the Company and the audited annual financial statements of the Group for the year ended 31 December 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 of the Listing Rules and the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2014.

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of information of a Director of the Company is as follows:

Mr. Lee Kwan Hung resigned as an independent non-executive director of Yuexiu REIT Asset Management Limited and Far East Holdings International Limited on 7 October 2014 and 12 November 2014 respectively.

CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the year ended 31 December 2014 as contained in Appendix 14 of the Listing Rules.

A report on the principal corporate governance practices adopted by the Company is set out on pages 83 to 94.

COMPETITION AND CONFLICT OF INTERESTS

Save as disclosed in the Listing Document, none of the Director nor 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 2014 and as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2014, the Company bought back a total of 19,332,500 shares on the Stock Exchange at an aggregate consideration of HKD256,893,990 before expenses.

Details of the share buy-backs are as follows:

Month of purchase	Number of ordinary shares bought back	Price per share		Aggregate consideration paid
		Highest	Lowest	
		HKD	HKD	HKD
June 2014	2,379,000	15.10	13.96	34,864,540
September 2014	206,000	12.76	12.46	2,587,220
October 2014	2,824,500	13.80	12.30	37,260,910
December 2014	13,923,000	13.82	11.90	182,181,320

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 2014 are as follows:

Grantee	Date of grant	Exercise Price	As at 1 January 2014	Number of share options Granted	Exercised	Lapsed	As at 31 December 2014
		HKD					
Executive Directors							
Liu Dejian	07.12.2009	4.33	320,000	–	320,000	–	0
	22.07.2011	4.60	213,000	–	56,800	–	156,200
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	213,000	–	56,800	–	156,200
Chen Hongzhan	07.12.2009	4.33	320,000	–	320,000	–	0
	22.07.2011	4.60	213,000	–	56,800	–	156,200
Independent non-executive Directors							
Chao Guowei, Charles	22.07.2011	4.60	200,000	–	–	–	200,000
	23.04.2012	5.74	300,000	–	–	–	300,000
	04.12.2013	15.72	318,000	–	–	–	318,000
Lee Kwan Hung	22.07.2011	4.60	200,000	–	–	–	200,000
	23.04.2012	5.74	300,000	–	100,000	–	200,000
	04.12.2013	15.72	318,000	–	–	–	318,000
Liu Sai Keung, Thomas	22.07.2011	4.60	200,000	–	–	–	200,000
	23.04.2012	5.74	300,000	–	–	–	300,000
	04.12.2013	15.72	318,000	–	–	–	318,000
Others							
Employees	07.12.2009	4.33	160,000	–	80,000	–	80,000
	28.04.2011	4.80	8,016,784	–	1,695,835	758,355	5,562,594
	22.07.2011	4.60	604,463	–	299,450	27,775	277,238
	23.04.2012	5.74	1,601,667	–	169,900	260,550	1,171,217
	06.07.2012	6.53	588,075	–	79,962	34,875	473,238
	12.09.2012	7.20	83,000	–	2,250	27,500	53,250
	16.01.2013	11.164	700,000	–	20,050	104,600	575,350
	25.04.2014	14.66	–	556,000	–	–	556,000
Total			17,170,989	556,000	3,257,847	1,213,655	13,255,487

SHARE OPTION SCHEME (Cont'd)

Notes:

1. On 25 April 2014, 556,000 share options were granted to the employee of the Company under the Main Board Share Option Scheme. The closing price of the Company's shares on 25 April 2014 (the trading day on the grant of the share options) was HKD14.66.

2. During the year under review, 910,400 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 2014, 952,203 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 317,400 vesting awarded shares, a total of 118,212 awarded shares were vested by 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 2014, details of the awarded shares under the Share Award Scheme were as follows:

Average price per share (HKD) *(Note)*	**As at 1 January 2014**	**Number of shares vested during the year**	**Number of granted shares outstanding during the year**	**As at 31 December 2014**
5.07	1,269,603	(317,400)	952,203	952,203

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)

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 2014, no awarded shares were granted under the Best Assistant Share Award Scheme.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT

On 6 January 2015, Best Assistant entered into the Series A Agreement with the Series A Investors for the allotment and issue of an aggregate of 180,914,513 Series A Preferred Shares for a total consideration of US$52,500,000 (equivalent to approximately HK$409.5 million). The Series A Preferred Shares, when allotted and issued, will represent 100% of all issued preferred shares of Best Assistant and account for approximately 12.22% of all the outstanding shares of Best Assistant upon full conversion of all of the Series A Preferred Shares. The obligations of the Series A Investors to purchase the Series A Preferred Shares at the closing is subject to the fulfillment on or before the closing of certain conditions, unless waived in writing by the Series A Investors at the closing, among other things, that Best Assistant shall and the Covenantors shall cause Best Assistant to effect an amendment of the Best Assistant Share Award Scheme to include the affirmative vote of at least one of the Investor Directors in all consents required from the Board.

On 10 February 2015, Fujian Tianquan Education Technology Limited ("Fujian Tianquan"), Fujian Huayu Education Technology Limited ("Fujian Huayu") and Fujian NetDragon Websoft Co., Ltd. ("NetDragon (Fujian)") have entered into the Control Documents. Pursuant to the Specific Waiver granted by the Stock Exchange to the Company at around the time of Listing, the framework of the ND Structure Contracts may be cloned in relation to any existing or new wholly foreign owned enterprise, operating company or FITE (as defined below) that the Company might wish to establish, without obtaining the approval of the Shareholders on terms that the protections for the Shareholders described in the Specific Waiver will apply.

ISSUE OF SERIES A PREFERRED SHARES BY BEST ASSISTANT (Cont'd)

The Control Documents are cloned from the ND Structure Contracts such that Fujian Tianquan will receive service fees from Fujian Huayu, and the total amount of which shall be determined by the Best Assistant Management Committee with reference to the amount of expenditure incurred by Fujian Huayu in the conduct of its business and operations and its working capital requirements under 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; (ii) the net asset value of NetDragon (Fujian) at the end of the year, on a stand alone basis or when aggregated with all of its subsidiaries including but not limited to Fujian Huayu and its subsidiaries, shall not exceed its net asset value as at 31 December 2006, being approximately RMB15,000,000; and (iii) the net asset value at the end of the year of Fujian Huayu shall not exceed its registered capital as at 31 December 2014, being approximately RMB200,000,000.

The Directors confirm that this arrangement ensures that substantially all economic benefits generated from the operation of Fujian Huayu will be enjoyed by Fujian Tianquan and will give flexibility to the Best Assistant Management Committee to implement the Control Documents and its underlying principles more effectively in response to constantly changing PRC laws and regulations.

As the Control Documents are cloned from the ND Structure Contracts, transactions under the Control Documents are exempt from Shareholders' approval.

The closing has taken place on 13 February 2015 in accordance with the terms of the Series A Agreement. On 13 February 2015, Best Assistant has issued an aggregate of 180,914,513 Series A Preferred Shares to the Series A Investors.

Further details of the issue of Series A Preferred Shares are set out in the announcements of the Company dated 6 January 2015, 10 February 2015 and 13 February 2015.

As such, the Company's beneficial shareholding in Best Assistant will be reduced from 86.15% to approximately 77.96%, assuming all of the Series A Preferred Shares are fully converted.

AUDITOR

The consolidated financial statements for the year ended 31 December 2014 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, 26 March 2015

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 and Corporate Governance Report (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, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions 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 46 to 52. 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 ended 31 December 2014, the Board held four meetings and the attendance of each of the Directors at Board, committee and general meetings held in 2014 is set out below:

Directors	Full Board	Audit Committee	Remuneration Committee	Nomination Committee	Share Award Scheme Committee*	Annual General Meeting
Executive Directors						
Liu Dejian (Chairman)	4/4	N/A	N/A	N/A	N/A	0/1
Liu Luyuan (Chief Executive Officer)	4/4	N/A	N/A	N/A	N/A	1/1
Zheng Hui	4/4	N/A	N/A	N/A	N/A	1/1
Chen Hongzhan	4/4	N/A	N/A	N/A	N/A	0/1
Non-executive Director						
Lin Dongliang	3/4	N/A	N/A	N/A	N/A	0/1
Independent non-executive Directors						
Chao Guowei, Charles	4/4	4/4	1/1	1/1	N/A	0/1
Lee Kwan Hung	4/4	4/4	1/1	1/1	N/A	0/1
Liu Sai Keung, Thomas	4/4	4/4	1/1	1/1	N/A	1/1

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

The CG Code provision E.1.2 requires that the Chairman of the Board should attend the annual general meeting of the Company ("AGM") and should invite the Chairman of the audit, remuneration, nomination and any other committee (as appropriate) to attend the 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. Liu Dejian, the Chairman of the Board, could not attend the AGM of the Company held on 23 May 2014 as he had another engagement which was important to the Company's business. Mr. Liu Sai Keung, Thomas is a member of the audit committee and the chairman of the nomination committee attended the AGM held on 23 May 2014. Due to other commitment, the chairman of the audit committee, Mr. Chao Guowei, Charles and the chairman of the remuneration Committee, Mr. Lee Kwan Hung did not attend the AGM of the Company held on 23 May 2014.

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. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the shareholders of the Company.

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 has been verified. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

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 TRANSACTION, ARRANGEMENT OR 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 62 to 65 in the section of "Report of the Directors" under the paragraphs of "ND Structure Contracts".

With reference to the Best Assistant Control Documents entered into among Fujian Tianquan, Fujian Huayu, 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 Control Documents would technically constitute connected transactions. Details for the Best Assistant Control Documents are set out in pages 66 to 69 in the section of "Report of the Directors" under the paragraphs of "Best Assistant Control Documents".

With reference to the continuing connected transactions for the 851 Tenancy Agreements entered into among TQ Digital, NetDragon (Fujian) and Fuzhou 851 and with reference to the continuing connected transaction for the Recreation Centre Agreement entered into between TQ Digital and Fuzhou 851, Fuzhou 851 is owned as to approximately 12.63% and 87.37% by DJM Holding Ltd., a substantial shareholder of the Company and Mr. Liu Dejian, an executive Director, respectively. 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, 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 Series A Agreement entered into, among others, Best Assistant (Cayman) and the Series A Investors for the allotment and issue of an aggregate of 180,914,513 Series A Preferred Shares for a total consideration of US$52,500,000 (equivalent to approximately HK$409.5 million), DJM Holding Ltd. will be allotted 2,987,605 Series A Preferred Shares. DJM Holding Ltd. is a substantial shareholder of the Company and is owned as to approximately 95.36% by Mr. Liu Dejian, the chairman and an executive Director. Thus, DJM Holding Ltd. is considered as a connected person to the Company.

Details for the continuing connected transactions are set out in pages 70 to 76 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 transaction, arrangement or contract of significance of the Company during the year ended 31 December 2014 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 and Best Assistant Control Documents of the Group.

The Audit Committee held four meetings during the year ended 31 December 2014. The major work performed by the Audit Committee in respect of the year ended 31 December 2014 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 2014, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2014, reviewing the third quarterly results announcement for the nine months ended 30 September 2014, reviewing the audited financial statements and final results announcement for the year ended 31 December 2014, 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.

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 2014 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 2014, 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.

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 which has adopted written terms of reference in compliance with the CG Code Provision. 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 2014, 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. 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.

BEST ASSISTANT MANAGEMENT COMMITTEE

The Best Assistant Management Committee was established on 3 March 2015 pursuant to the Best Assistant Control Documents to oversee the business and operations of Fujian Huayu. 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. 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 Control Documents, 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 Wang Song, who were appointed by Fujian Tianquan. The directors of Fujian Huayu comprise Liu Dejian, Liu Luyuan, Zheng Hui, Chen Hongzhan, being executive Directors, and Wang Song. Zheng Hui is also the general manager of Fujian Huayu.

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 members of the senior management, namely Yam Kwok Hei, Benjamin and Lau Hak Kin.

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 effective on 1 April 2012 on Directors' training. In 2014, 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.

For the year ended 31 December 2014, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the code provisions on internal control of the CG Code.

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	1,532
Non-audit services	1,878
	3,410

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. The Directors acknowledge such responsibilities. The Directors, having made appropriate enquires, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statements of the Company's external auditors regarding their responsibilities on the financial statements are set out in the Independent Auditor's Report on pages 95 to 96.

COMPANY SECRETARY

Mr. Lau Hak Kin, Financial Controller and Head of Compliance and Corporate Affairs of the Company, has been appointed by the Company as the company secretary. He is also the primary contact person of the Company. Duing the year ended 31 December 2014, Mr. Lau Hak Kin has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company recognizes the importance to maintain an on-going dialogue with the shareholders. The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors. A shareholders' communication policy, which is reviewed by the Board on regular basis, had been established to promote effective engagement with shareholders, both individual and institutional, investors and other stakeholders, giving them ready access to balanced and understandable information about the Company and corporate proposals and making it easy for Shareholders to participate in general meetings.

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 should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar and transfer office: Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

For other enquires or proposals to the Board, Shareholders may send written enquiries to the Company 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 2014 was approximately HKD6,828.1 million (entire issued share capital: 499,861,262 shares) at closing market price: HKD13.66 per share. The public float is around 39%.

There has not been any significant change in the Company's constitutional documents during the year ended 31 December 2014.

The AGM will be held at Plaza Meeting Room, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 21 May 2015.

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 97 to 204, which comprise the consolidated statement of financial position as at 31 December 2014, 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 the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

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 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Continuing operations			
Revenue	5	962,817	884,518
Cost of revenue		(102,844)	(81,426)
Gross profit		859,973	803,092
Other income and gains	5	157,101	44,980
Selling and marketing expenses		(152,495)	(106,200)
Administrative expenses		(326,934)	(366,143)
Development costs		(249,260)	(162,857)
Other expenses		(34,027)	(10,046)
Share of losses of associates		(2,354)	(16)
Operating profit		252,004	202,810
Interest income on pledged bank deposits		2,794	4,883
Exchange (loss) gain on pledged bank deposits and secured bank borrowings		(5,081)	4,593
Net gain (loss) on derivative financial instrument	33	6,817	(5,481)
Gain on disposal of available-for-sale investment		–	5,761
Net (loss) gain on held-for-trading investments		(17,304)	8,756
Finance costs	6	(3,212)	(4,651)
Profit before taxation		236,018	216,671
Taxation	8	(64,197)	(50,264)
Profit for the year from continuing operations	10	171,821	166,407
Discontinued operations			
Profit for the year from discontinued operations	9	–	6,056,041
Profit for the year		171,821	6,222,448
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		(40)	(1,130)
Total comprehensive income for the year		171,781	6,221,318

	NOTE	**2014 RMB'000**	2013 RMB'000
Profit (loss) for the year attributable to:			
– Owners of the Company		**176,681**	6,140,776
– Non-controlling interests		**(4,860)**	81,672
		171,821	6,222,448
Profit for the year attributable to owners of the Company:			
– from continuing operations		**176,681**	164,352
– from discontinued operations		**–**	5,976,424
Profit for the year attributable to owners of the Company		**176,681**	6,140,776
(Loss) profit for the year attributable to non-controlling interests:			
– from continuing operations		**(4,860)**	2,055
– from discontinued operations		**–**	79,617
(Loss) profit for the year attributable to non-controlling interests		**(4,860)**	81,672
Total comprehensive income (expense) attributable to:			
– Owners of the Company		**176,641**	6,139,646
– Non-controlling interests		**(4,860)**	81,672
		171,781	6,221,318
		RMB cents	RMB cents
Earnings per share	13		
From continuing and discontinued operations			
– Basic		**34.77**	1,213.44
– Diluted		**34.22**	1,181.10
From continuing operations			
– Basic		**34.77**	32.48
– Diluted		**34.22**	31.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	14	**822,704**	532,684
Prepaid lease payments	15	**378,673**	185,819
Investment property	16	**–**	15,725
Intangible assets	17	**141,254**	–
Interests in associates	18	**28,795**	1,299
Available-for-sale investments	19	**5,000**	5,000
Loan receivables	20	**18,327**	16,041
Deposits made for acquisition of property, plant and equipment		**35,967**	16,769
Other receivable	25	**–**	60,969
Goodwill	21	**40,013**	12,534
Deferred tax assets	22	**54**	54
		1,470,787	846,894
Current assets			
Prepaid lease payments	15	**2,708**	2,583
Loan receivables	20	**1,578**	713
Trade receivables	23	**51,072**	41,718
Amounts due from customers for contract work	24	**7,252**	–
Other receivables, prepayments and deposits	25	**210,098**	69,770
Amounts due from related companies	26	**1,704**	4,564
Amounts due from associates	27	**367**	–
Held-for-trading investments	28	**211,584**	20,735
Pledged bank deposit	29	**236,805**	107,368
Bank deposits	29	**1,999,644**	3,051,289
Bank balances and cash	29	**1,036,788**	1,304,355
		3,759,600	4,603,095

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Current liabilities			
Trade and other payables	30	**209,214**	152,837
Amounts due to customers for contract work	24	**424**	–
Deferred income		**25,595**	26,553
Amount due to a related company	31	**1,891**	–
Amount due to an associate	31	**8**	–
Secured bank borrowing	32	**236,805**	104,672
Other financial liability	33	**–**	3,122
Income tax payable		**137,648**	539,927
		611,585	827,111
Net current assets		**3,148,015**	3,775,984
Total assets less current liabilities		**4,618,802**	4,622,878
Non-current liabilities			
Other payables	34	**1,283**	–
Deferred tax liabilities	22	**116**	–
		1,399	–
Net assets		**4,617,403**	4,622,878
Capital and reserves			
Share capital	35	**36,943**	37,664
Share premium and reserves		**4,529,971**	4,577,478
Equity attributable to owners of the Company		**4,566,914**	4,615,142
Non-controlling interests		**50,489**	7,736
		4,617,403	4,622,878

The consolidated financial statements on pages 97 to 204 were approved and authorised for issue by the Board of Directors on 26 March 2015 and are signed on its behalf by:

Liu Dejian
Director

Zheng Hui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	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 2013	37,532	1,069,844	3,717	2,209	10,045	172,895	81,947	673	(7,225)	30,986	(58,179)	49,405	1,393,849	22,154	1,416,003
Profit for the 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
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	–	–	176,681	176,681	(4,860)	171,821
Other comprehensive expense for the year	–	–	–	–	–	–	–	–	–	–	(40)	–	(40)	–	(40)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	–	–	(40)	176,681	176,641	(4,860)	171,781
Repurchase and cancellation of shares	(1,084)	(152,308)	1,084	–	–	–	–	–	–	–	–	(1,084)	(153,392)	–	(153,392)
Shares issued upon exercise of share options	201	18,083	–	–	–	–	–	–	–	(5,820)	–	–	12,464	–	12,464
Shares issued upon acquisition of subsidiaries	162	28,031	–	–	–	–	–	–	–	–	–	–	28,193	–	28,193
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	–	–	10,718	–	–	10,718	–	10,718
Return of capital to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,990)	(3,990)
Contributions from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	90,300	90,300
Deemed disposal to non-controlling shareholder	–	–	–	38,755	–	–	–	–	–	–	–	–	38,755	(38,755)	–
Final dividend for 2013 paid	–	–	–	–	–	–	(79,977)	–	–	–	–	(353)	(80,330)	–	(80,330)
Interim dividend for 2014 declared and paid	–	–	–	–	–	–	–	–	–	–	–	(81,277)	(81,277)	–	(81,277)
Final dividend for 2014 proposed	–	–	–	–	–	–	78,865	–	–	–	–	(78,865)	–	–	–
Acquisition of non-wholly owned subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	58	58
Awarded shares vested to employees	–	–	–	–	–	–	–	–	1,445	(2,803)	–	1,358	–	–	–
Transfers	–	–	–	–	–	50,814	–	–	–	–	–	(50,814)	–	–	–
	(721)	(106,194)	1,084	38,755	–	50,814	(1,112)	–	1,445	2,095	–	(211,035)	(224,869)	47,613	(177,256)
At 31 December 2014	36,943	930,286	5,223	38,755	10,045	253,699	78,865	673	(4,335)	31,872	(59,349)	3,244,237	4,566,914	50,489	4,617,403

Notes:

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

b. In 2014, other reserve represented the deemed disposal of subsidiaries in which control is still remained. In 2013, 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.

	NOTE	2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES			
Profit for the year		**171,821**	6,222,448
Adjustments for:			
Taxation		**64,197**	653,709
Allowances on trade receivables		**4,509**	2,460
Amount written off as bad debts		**5,633**	–
Amortisation of intangible assets		**7,448**	1,510
Depreciation of property, plant and equipment		**70,002**	48,867
Finance costs		**3,212**	15,526
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 disposal of an associate		**–**	(100)
Gain on disposal of subsidiaries before taxation	44	**(98)**	(6,309,358)
Gain on bargain purchase from acquisition of a subsidiary		**(59)**	–
Loss (gain) on disposal of property, plant and equipment		**667**	(88)
Impairment loss recognised in respect of interests in associates		**–**	3,008
Interest income		**(96,257)**	(31,210)
Net gain on derivative financial instruments		**(6,817)**	(27,223)
Net loss (gain) on held-for-trading investments		**17,304**	(8,756)
Release of prepaid lease payments		**2,308**	1,753
Share-based payments expense		**26,179**	141,182
Share of losses of associates		**2,354**	953
Share of profit of a joint venture		**–**	(796)
Write-off of intangible assets		**–**	1,074
Operating cash flows before movements in working capital		**272,403**	708,587
Increase in trade receivables		**(14,538)**	(83,800)
Increase in amounts due from customers for contract work		**(7,252)**	–
Increase in other receivables, prepayments and deposits		**(59,633)**	(10,838)
Decrease (increase) in amounts due from related companies		**9,127**	(927)
Increase in amounts due from associates		**(367)**	–
Increase in trade and other payables		**30,700**	198,192
Increase in amounts due to customers for contract work		**424**	–
(Decrease) increase in deferred income		**(1,026)**	6,579
(Decrease) increase in amount due to a related company		**(3,819)**	1,015
Increase in amount due to an associate		**8**	–
Cash generated from operations		**226,027**	818,808

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Interest paid		**(4,289)**	(7,563)
Income tax paid		**(469,566)**	(90,287)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(247,828)**	720,958
INVESTING ACTIVITIES			
Interest received		**64,141**	25,722
Acquisitions of subsidiaries	37	**(116,183)**	–
Acquisitions of associates		**(28,992)**	–
Purchase of held-for-trading investments		**(208,153)**	–
Acquisitions of available-for-sale investments		**–**	(6,218)
Proceeds from disposal of property, plant and equipment		**388**	3,005
Proceeds from disposal of prepaid lease payments		**–**	13,074
Cash (outflow) inflow from disposal of subsidiaries	44	**(2,213)**	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		**(32,817)**	(16,769)
Placement of bank deposits		**(2,421,255)**	(3,071,754)
Placement of pledged bank deposit		**(236,805)**	(108,268)
Withdrawal of bank deposits		**3,486,902**	389,987
Withdrawal of pledged bank deposit		**112,362**	182,149
Advance of loan receivables		**(6,348)**	(7,170)
Repayment of loan receivables		**3,222**	3,421
Repayment of a joint venture		**–**	3,405
Purchase of prepaid lease payments		**(195,287)**	(60,267)
Purchase of property, plant and equipment		**(330,744)**	(245,455)
Purchase of intangible assets		**(4,097)**	–
NET CASH FROM INVESTING ACTIVITIES		**84,121**	2,729,974

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 RMB'000	2013 RMB'000
FINANCING ACTIVITIES		
Repayment of amount due to an associate	–	(5,600)
Contribution from non-controlling shareholders	90,300	4,484
Contribution from an associate to a subsidiary of the Group	–	858
Return of contribution to an associate and non-controlling shareholders from a subsidiary of the Group	(4,848)	–
Proceeds from issue of redeemable convertible preferred shares	–	109,888
Proceeds from shares issued upon exercise of share options	12,464	32,866
Dividends paid	(161,607)	(3,293,970)
New bank borrowing raised	236,805	110,036
Repayment of bank borrowings	(114,430)	(179,660)
Payment for repurchase of shares	(153,392)	(83,020)
NET CASH USED IN FINANCING ACTIVITIES	(94,708)	(3,304,118)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(258,415)	146,814
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,304,355	1,142,825
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(9,152)	14,716
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	1,036,788	1,304,355

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 since 1 October 2013.

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")

Amendments to HKFRSs and the new Interpretation that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to HKFRSs and a new Interpretation.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) - Int 21	Levies

Except as described below, the amendments to HKFRSs and the new Interpretation in the current year have 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)

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

The Group has applied the amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. 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 applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customer[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contribution[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after 1 July 2014
[5] Effective for annual periods beginning on or after 1 January 2016
[6] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- 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.

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

HKFRS 9 Financial Instruments (Cont'd)

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- 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.

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.

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

Annual Improvements to HKFRSs 2010-2012 Cycle (Cont'd)

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 of the Company do not anticipate that the application of these amendments will have a material effect 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 (Cap. 32).

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 and its subsidiaries. Control is achieved when 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 component 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in 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.

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 (including goodwill), 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 or transferred to another category of equity as specified/permitted by applicable HKFRSs). 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

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.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 items 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 through 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 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 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 income can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Government grants

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and building held for use in the production or supply of goods or services, or for administrative purposes (other than 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 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. Cost includes 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 measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in 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 disposal. 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.

When an investment property is transferred to as an owner-occupied property upon the commencement of owner-occupation, the fair value of the investment property at the date of change in use is treated as the deemed cost of the property for subsequent accounting in accordance with HKAS 16.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

Recoverable amount is the higher of fair value less costs of disposal 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.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Intangible assets

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

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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 as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each 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 at 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

For the purposes of presenting 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 expense 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.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, 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 includes a foreign operation 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.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

The Group's financial assets are classified into the following specified 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 debt instrument 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 debt instrument, 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 other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets at FVTPL are held-for-trading financial assets.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near term;
- 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 asset and is included in the 'other income and gains'. Fair value is determined in the manner described in note 28.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including loan receivables, trade receivables, other receivables, amounts due from related companies, amounts due from associates, 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 impairment.

Available-for-sale financial assets

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

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).

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 considered to be impaired when 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 investment have been affected.

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

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

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets (Cont'd)

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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the 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 investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Equity instruments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

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.

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 they 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 employee share-based compensation reserve.

At the end of each reporting period, the Group revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, 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 employee share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

Share award scheme

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

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

At the time when the 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 asset arising from development (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 recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each 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 rates (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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

For the purposes of measuring deferred tax liabilities and 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 are 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.

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.

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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 when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata 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 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 underlying 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 estimations (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") (disposed of as a subsidiary in the year ended 31 December 2013 which is described in more details in note 9). 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 RMB771,247,000 (2013: RMB1,084,345,000) for the year ended 31 December 2014. At 31 December 2014, total assets and total liabilities of these entities amounted to approximately RMB531,830,000 (2013: RMB595,728,000) and RMB534,278,000 (2013: RMB266,382,000).

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 was measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment property was not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property 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 reports mobile value-added service revenue arising from products from content providers on a net basis.

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

Key sources 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 may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Online game revenue recognition

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

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

Allowances on trade receivables

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

5. REVENUE, OTHER INCOME AND GAINS

	2014	2013
Continuing operations	**RMB'000**	RMB'000
Revenue		
Online game revenue	**962,817**	884,518
Other income and gains		
Government grants (Note)	**25,262**	16,101
Interest income	**93,463**	23,329
Net foreign exchange gain	**15,417**	–
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 a subsidiary	**98**	–
Gain on disposal of an associate	**–**	100
Gain on bargain purchase from acquisition of a subsidiary	**59**	–
Game implementation income	**11,246**	–
Compensation income	**1,739**	–
Rental income, net of negligible outgoing expenses	**524**	505
Server rental income	**4,703**	–
Others	**4,590**	4,187
	157,101	44,980

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

	2014 RMB'000	2013 RMB'000
Continuing operations		
Interest on:		
Bank borrowings wholly repayable within five years	**3,212**	4,651

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 games development and operation and marketing of those online games) from its continuing operations.

With effect from 1 October 2013, the Group's mobile Internet business segment has been classified as discontinued operations upon the disposal of 91 Wireless Websoft Limited ("91 Limited") and its subsidiaries ("91 Group"), which is described in more details in note 44.

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

	2014 RMB'000	2013 RMB'000
Segment revenue	**962,817**	884,518
Segment profit	**275,547**	446,352
Unallocated income and gains	**104,655**	25,114
Unallocated expenses	**(141,830)**	(254,779)
Share of losses of associates	**(2,354)**	(16)
Profit before taxation	**236,018**	216,671

7. SEGMENT INFORMATION (Cont'd)

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 gain (loss) on derivative financial instrument, income tax expenses, and unallocated income, gains and expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

	2014 RMB'000	2013 RMB'000
Online game	**4,236,289**	5,129,373
Unallocated	**994,098**	320,616
	5,230,387	5,449,989

For the purposes of monitoring segment performance and allocating resources, all assets are allocated to operating segment other than those assets managed on group basis, such as interests in associates, available-for-sale investments, held-for-trading 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.

7. SEGMENT INFORMATION (Cont'd)

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:

	2014	2013
	RMB'000	RMB'000
PRC	**816,161**	781,442
United States of America ("USA")	**91,267**	97,115
Hong Kong	**37,770**	–
Others	**17,619**	5,961
	962,817	884,518

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:

	2014	2013
	RMB'000	RMB'000
PRC	**1,228,275**	671,042
Hong Kong	**219,065**	93,700
USA	**58**	88
Indonesia	**8**	–
	1,447,406	764,830

No single customer of the Group individually contributed over 10% of the Group's revenue for the years ended 31 December 2014 and 2013.

8. TAXATION

Continuing operations	2014 RMB'000	2013 RMB'000
The tax charge from continuing operation comprises:		
Hong Kong Profits Tax		
– Current year	6,988	5,983
– Underprovision in prior years	4,521	–
	11,509	5,983
PRC Enterprise Income Tax ("EIT")		
– Current year	54,794	38,858
– Withholding tax	–	12,000
– Overprovision in prior year	(2,343)	(6,811)
	52,451	44,047
Taxation in other jurisdiction	172	234
Deferred tax		
– Origination and reversal of temporary differences	65	–
	64,197	50,264

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

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

8. TAXATION (Cont'd)

Pursuant to the joint 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資訊化部), 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 (中國商務部) and the State Administration of Taxation ("SAT") (國家稅務總局), Fujian TQ Digital Inc. ("TQ Digital"), a wholly foreign-invested enterprise, had been recognised as a key software enterprise on 22 December 2013 under the State Administration of Taxation under the National Plan (國家規劃佈局). 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 enterprise income tax at the reduced rate of 10% and the qualification of key software enterprises is subject to review once every two years. Therefore, TQ Digital is entitled to preferential EIT rate of 10% for the years ended 31 December 2014 and 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 years ended 31 December 2014 and 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 2014, the USA income tax rates applicable to NetDragon Websoft Inc. are 39% (2013: 34%) for federal tax and 8.84% (2013: 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:

	2014 RMB'000	2013 RMB'000
Profit before taxation from continuing operations	**236,018**	216,671
Tax at the applicable tax rate of 25% (2013: 25%) (Note a)	**59,005**	54,168
Tax effect of share of losses of associates	**588**	4
Tax effect of income not taxable for tax purpose	**(23,075)**	(19,058)
Tax effect of expenses not deductible for tax purpose	**90,973**	69,275
Tax effect of temporary difference not recognised	**(567)**	2,969
Utilisation of tax losses previously not recognised	**(56)**	(883)
Tax effect of tax loss not recognised	**22,342**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,783)**	(2,979)
Additional tax benefit on development expenses (Note b)	**(6,220)**	(4,876)
Tax effect of exemption and income tax on concessionary rate granted to the PRC subsidiaries	**(78,177)**	(53,602)
Withholding tax on undistributed earnings of the PRC subsidiaries	**–**	12,000
Under (over)provision in prior years	**2,178**	(6,811)
Others	**(11)**	57
Tax charge for the year (relating to continuing operations)	**64,197**	50,264

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 2014 and 2013.

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 22.

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 had conditionally agreed to sell, and Baidu had conditionally agreed to purchase the entire equity interest of 91 Group (the "Disposal"). The Disposal was completed on 1 October 2013.

The profit from the discontinued operations for the year ended 31 December 2013 was analysed below.

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

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, were as follows:

	2013
	RMB'000
Revenue	608,188
Cost of revenue	(78,212)
Gross profit	529,976
Other income and gains	6,976
Selling and marketing expenses	(61,604)
Administrative expenses	(74,989)
Development costs	(57,873)
Other expenses	(15,179)
Share of losses of associates	(937)
Share of profit of a joint venture	796
Operating profit	327,166
Exchange gain on redeemable convertible preferred shares	1,133
Net gain on derivative financial instruments of redeemable convertible preferred shares	32,704
Finance costs	(10,875)
Profit before taxation	350,128
Taxation	(106,050)
Profit for the year from discontinued operations	244,078

9. DISCONTINUED OPERATIONS (Cont'd)

Profit for the year from discontinued operations includes the following:

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

For the year ended 31 December 2013, 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

	2014 RMB'000	2013 RMB'000
Profit for the year from continuing operations has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**7,759**	8,250
Other staff costs		
Salaries and other benefits	**383,897**	251,967
Contributions to retirement benefits schemes	**34,624**	23,049
Share-based payments expense	**19,842**	96,554
	446,122	379,820
Auditor's remuneration		
– audit services	**1,532**	1,181
– non-audit services	**1,878**	3,419
	3,410	4,600
Amortisation of intangible assets (included in cost of revenue)	**263**	1,510
Amortisation of intangible assets (included in administrative expenses)	**7,185**	–
Release of prepaid lease payments (included in administrative expenses)	**2,308**	1,753
Depreciation of property, plant and equipment	**70,002**	47,308
Total depreciation and amortisation	**79,758**	50,571
Advertising and promotion expenses (included in selling and marketing expenses)	**83,601**	49,824
Amounts written off as bad debts	**5,633**	–
Allowances on trade receivables	**4,509**	156
Operating lease rentals in respect of		
– rented premises	**15,358**	10,133
– computer equipment	**39,859**	33,090
Net foreign exchange (gain) loss	**(10,336)**	28,607
Write-off of intangible assets (included in other expenses)	**–**	1,074
Loss on disposal of property, plant and equipment	**667**	–

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the eight (2013: eight) directors of the Company were as follows:

	2014				
	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	–	590	–	464	1,054
Mr. Liu Luyuan (Note)	–	591	21	464	1,076
Mr. Zheng Hui	–	152	19	70	241
Mr. Chen Hongzhan	–	590	20	464	1,074
Non-executive director					
Mr. Lin Dongliang	–	–	–	–	–
Independent non-executive directors					
Mr. Chao Guowei, Charles	403	–	–	1,035	1,438
Mr. Lee Kwan Hung	403	–	–	1,035	1,438
Mr. Liu Sai Keung, Thomas	403	–	–	1,035	1,438
	1,209	1,923	60	4,567	7,759

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

Directors' emoluments (Cont'd)

	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 (Note)	–	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

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, during both reporting periods, none of them was executive director of the Company, whose emoluments are included in the disclosures above. The emoluments of the remaining five individuals (2013: five) were as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries and other benefits	**6,365**	5,995
Contribution to retirement benefits schemes	**98**	78
Share-based payments expense	**10,703**	56,244
	17,166	62,317

Their emoluments were within the following bands:

	2014 **Number of employees**	2013 Number of employees
HKD2,500,001 to HKD3,000,000	**1**	–
HKD3,500,001 to HKD4,000,000	**1**	–
HKD4,000,001 to HKD4,500,000	**2**	–
HKD6,500,001 to HKD7,000,000	**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	5

During the year ended 31 December 2014, 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 years ended 31 December 2014 and 2013.

12. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Dividends recognised as distribution during the year:		
2014 Interim — HKD0.20 (2013: 2013 Interim dividend of HKD0.20) per share	**81,277**	81,329
2013 Final — HKD0.20 (2013: 2012 Final dividend of HKD0.20) per share	**80,330**	82,338
Special dividend — Nil (2013: HKD7.77) per share	**–**	3,130,303
	161,607	3,293,970

The final dividend of HKD0.20 (2013: 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 RMB78,865,000 (2013: RMB79,977,000).

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:

	2014 RMB'000	2013 RMB'000
Earnings for the purposes of basic earnings per share:		
– profit for the year attributable to the owners of the Company	**176,681**	6,140,776
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	**176,681**	6,114,767

13. EARNINGS PER SHARE (Cont'd)

From continuing and discontinued operations (Cont'd)

	Number of shares	
	2014	2013
	'000	'000
Weighted average number of shares in issue during the year for the purpose of basic earnings per share (after adjusted for the effect of unvested and treasury shares held under share award scheme)	**508,158**	506,063
Effect of dilutive potential shares from the Company's share option scheme	**8,096**	11,656
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)	**516,254**	517,719

Note:

The computation of diluted earnings per share for the year ended 31 December 2013 had taken into account the effect of share awards and redeemable convertible preferred shares issued by 91 Limited.

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:

	2014	2013
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to the owners of the Company	**176,681**	6,140,776
Less: profit for the year from discontinued operations attributable to the owners of the Company	**–**	5,976,424
Earnings for the purposes of calculating basic and diluted earnings per share from continuing operations	**176,681**	164,352

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

Basic and diluted earnings per share from discontinued operations were RMB1,180.96 cents and RMB1,149.35 cents, respectively, for the year ended 31 December 2013, based on the profit attributable to the owners of the Company from discontinued operations of approximately RMB5,976,424,000 (and after adjustment to the share of profit of subsidiaries of approximately RMB26,009,000 for diluted earnings per share) and the denominators detailed above for both basic and diluted earnings per share from continuing 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 2013	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
Exchange adjustments	(43)	(7)	(47)	–	–	(97)
Additions	2,287	87,499	98,726	14,569	141,282	344,363
Acquired on acquisition of subsidiaries	–	186	2,383	–	–	2,569
Reclassification	356,612	21,356	–	–	(377,968)	–
Disposals	–	(579)	(11,626)	(379)	–	(12,584)
Transfer from investment property (Note 16)	15,882	–	–	–	–	15,882
At 31 December 2014	397,868	228,582	330,839	37,753	114,964	1,110,006

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

	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
DEPRECIATION						
At 1 January 2013	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
Exchange adjustments	4	2	(42)	–	–	(36)
Provided for the year	4,984	17,082	42,246	5,690	–	70,002
Acquired on acquisition of subsidiaries	–	98	1,578	–	–	1,676
Eliminated on disposals	–	(511)	(10,696)	(322)	–	(11,529)
At 31 December 2014	8,262	63,911	199,996	15,133	–	287,302
CARRYING VALUES						
At 31 December 2014	389,606	164,671	130,843	22,620	114,964	822,704
At 31 December 2013	19,856	72,887	74,493	13,798	351,650	532,684

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%

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

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

	2014	2013
	RMB'000	RMB'000
In Hong Kong:		
Long lease	**31,860**	16,642
In the PRC other than in Hong Kong:		
Medium-term lease	**357,746**	3,214
	389,606	19,856

15. PREPAID LEASE PAYMENTS

	2014	2013
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current assets	**2,708**	2,583
Non-current assets	**378,673**	185,819
	381,381	188,402

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 RMB253,800,000 (2013: RMB64,528,000) which the Group is in the process of obtaining the land use right certificates.

16. INVESTMENT PROPERTY

	RMB'000
Fair value	
At 1 January 2013	16,217
Exchange adjustments	(492)
At 31 December 2013 and 1 January 2014	15,725
Exchange adjustments	157
Transfer to property, plant and equipment (Note 14)	(15,882)
At 31 December 2014	–

The fair values of the Group's investment property, including both land and building elements, as at 19 August 2014 and 31 December 2013 have been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. Asset Appraisal Limited is a member of The Hong Kong Institute of Surveyors. The valuation was determined by reference to 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.

In estimating the fair value of the property, the highest and best use of the properties is its current use. The investment property was a commercial property unit located in Hong Kong categorised into Level 3 of the fair value hierarchy in the prior year.

On 19 August 2014, the Group's investment property with fair value of RMB15,882,000 was transferred to property, plant and equipment as the Group changed its intention from earning rentals to self-use.

17. INTANGIBLE ASSETS

	Trademarks	Licence	Non-competition agreement	Customers relationship	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2013	23,829	–	–	–	6,700	30,529
Exchange adjustments	(665)	–	–	–	–	(665)
Written off	(2,975)	–	–	–	–	(2,975)
At 31 December 2013	20,189	–	–	–	6,700	26,889
Exchange adjustments	61	–	–	–	–	61
Additions	883	–	–	–	3,214	4,097
Acquired on acquisition of subsidiaries (Note 37)	3,595	5,245	61,031	74,736	–	144,607
At 31 December 2014	24,728	5,245	61,031	74,736	9,914	175,654
AMORTISATION						
At 1 January 2013	21,203	–	–	–	6,700	27,903
Exchange adjustments	(623)	–	–	–	–	(623)
Provided for the year	1,510	–	–	–	–	1,510
Written off	(1,901)	–	–	–	–	(1,901)
At 31 December 2013	20,189	–	–	–	6,700	26,889
Exchange adjustments	63	–	–	–	–	63
Provided for the year	427	579	3,030	3,338	74	7,448
At 31 December 2014	20,679	579	3,030	3,338	6,774	34,400
CARRYING VALUES						
At 31 December 2014	4,049	4,666	58,001	71,398	3,140	141,254
At 31 December 2013	–	–	–	–	–	–

17. INTANGIBLE ASSETS (Cont'd)

Intangible assets mainly represent customers relationship and non-competition agreement from the acquisition of Cherrypicks International Holdings Limited ("Cherrypicks") and its subsidiaries ("Cherrypicks Group") during the year. Cherrypicks Group have long and close business relationship with the major customers and non-competition agreement was signed between Cherrypicks Group and its employee upon acquisition. The acquisition of Cherrypicks Group has allowed the Group to develop its long term growth from Cherrypicks Group's mobile solution and mobile marketing business.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis at the following rates per annum:

Trademarks	10% - 50%
Licence	20%
Non-competition agreement	11.11%
Customers relationship	10%
Others	10% - 50%

18. INTERESTS IN ASSOCIATES

	2014	2013
	RMB'000	RMB'000
Unlisted investments:		
Cost of investments	**31,572**	2,580
Share of post-acquisition losses	**(2,777)**	(423)
Contribution to a subsidiary of the Group	**(858)**	(858)
Withdrawal from a subsidiary of the Group	**858**	—
Group's share of net assets of associates	**28,795**	1,299

18. INTERESTS IN ASSOCIATES (Cont'd)

As at 31 December 2014 and 2013, the Group had interests in the following associates:

Name of entities	Proportion of ownership interest held by the Group 2014	2013	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
101 Education Technology Co. Ltd. (101 Cayman) (Note b)	**49.0%**	–	Cayman Islands	USD8,000,000	Investment holding
101 Education Technology Co. Ltd. (101 BVI) (Note b)	**49.0%**	–	BVI	USD8,000,000	Investment holding
101 Education Technology (Hong Kong) Co. Ltd. (101 HK) (Note b)	**49.0%**	–	Hong Kong	USD8,000,000	Provision of online education and related application business
福建創思教育科技有限公司 (福建創思教育) (Note b)	**49.0%**	–	PRC	USD8,000,000	Provision of online education and related application business
福建一零一教育科技有限公司 (福建一零一教育) (Note b)	**49.0%**	–	PRC	RMB10,000,000	Provision of online education and related application business

18. INTERESTS IN ASSOCIATES (Cont'd)

Notes:

a) During the year 2011, the Group acquired an associate, 廈門易用 from an independent third party with fair value of assets and liabilities attributable to the interests acquired by the Group of approximately RMB1,359,000 at a consideration of RMB2,500,000. The investment cost of 廈門易用 included goodwill of approximately RMB1,141,000.

b) The entities were newly established during the year ended 31 December 2014. The Group holds 49% of the issued share capital of 101 Cayman, 101 BVI, 101 HK and 福建創思教育 (collectively the "101 Education Group") and 福建一零一教育 and has the power to appoint three directors out of seven directors in the board. Therefore, 101 Education Group and 福建一零一教育 are classified as associates of the Group.

Summarised financial information of material associates

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

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

廈門易用

	2014	2013
	RMB'000	RMB'000
Current assets	**967**	504
Non-current assets	**21**	2,034
Current liabilities	**67**	14
Revenue	**371**	873
(Loss) profit for the year	**(1,603)**	4

18. INTERESTS IN ASSOCIATES (Cont'd)

廈門易用 (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:

	2014 RMB'000	2013 RMB'000
Net assets of 廈門易用	921	2,524
Proportion of the Group's ownership interest in 廈門易用	42.9%	42.9%
Goodwill	1,141	1,141
Net contribution to a subsidiary of the Group	–	(858)
Others	(67)	(67)
Carrying amount of the Group's interest in 廈門易用	1,469	1,299

101 Education Group

	2014 RMB'000	2013 RMB'000
Current assets	47,029	–
Non-current assets	57	–
Current liabilities	579	–
Revenue	–	–
Loss for the year	(2,661)	–

18. INTERESTS IN ASSOCIATES (Cont'd)

101 Education Group (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:

	2014 RMB'000	2013 RMB'000
Net assets of 101 Education Group	**46,507**	–
Proportion of the Group's ownership interest in the 101 Education Group	**49.0%**	0.0%
Carrying amount of the Group's interest in the 101 Education Group	**22,788**	–

福建一零一教育

	2014 RMB'000	2013 RMB'000
Current assets	**9,291**	–
Non-current assets	**101**	–
Current liabilities	**131**	–
Revenue	**–**	–
Loss for the year	**(739)**	–

18. INTERESTS IN ASSOCIATES (Cont'd)

福建一零一教育 (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:

	2014 RMB'000	2013 RMB'000
Net assets of 福建一零一教育	9,261	–
Proportion of the Group's ownership interest in 福建一零一教育	49.0%	0.0%
Carrying amount of the Group's interest in 福建一零一教育	4,538	–

Aggregate information of associates that are not individually material

	2014 RMB'000	2013 RMB'000
The Group's share of loss from continuing operations	–	(18)
The Group's share of post-tax loss from discontinued operations	–	(937)
Aggregate carrying amount of the Group's interests in these associates	–	–

19. AVAILABLE-FOR-SALE INVESTMENTS

	2014 RMB'000	2013 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 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.

20. LOAN RECEIVABLES

	2014 RMB'000	2013 RMB'000
Loan receivables	**19,905**	16,754
Analysed as:		
Current	**1,578**	713
Non-current	**18,327**	16,041
	19,905	16,754

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

	2014	2013
Effective interest rate:		
Fixed-rate loan receivables (per annum)	**4.01%**	3.91%
Floating-rate loan receivables (per annum)	**2.15%**	2.15%

Included in loan receivables, RMB11,454,000 (2013: RMB9,104,000) represents loans to certain key management and staffs. Loan receivables are not past due or impaired at the end of the reporting period. The loans are either repayable by instalments until 2015, 2016, 2017, 2019 or 2040 or repayable in whole in 2017 and 2018. The Group does not hold any collateral over this balance.

21. GOODWILL

	RMB'000
COST AND CARRYING VALUES	
At 1 January 2013 and 31 December 2013	12,534
Arising on acquisition of subsidiaries (Note 37)	27,479
At 31 December 2014	40,013

For the purpose of impairment testing, goodwill has been allocated to the individual cash-generating units (CGUs), which comprise the subsidiaries, 福州軟件職業技術學院 and Cherrypicks Group, acquired in 2012 and 2014, respectively. During the years ended 31 December 2014 and 2013, management of the Group determines that there are no impairments of its CGUs containing goodwill. The recoverable amount of the goodwill has been determined based on a value in use calculation.

That calculation for 福州軟件職業技術學院 uses cashflow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 6.75%. That calculation for Cherrypicks Group uses cashflow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12.34%. 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 CGUs.

22. DEFERRED TAXATION

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

	2014 **RMB'000**	2013 RMB'000
Deferred tax assets	**54**	54
Deferred tax liabilities	**(116)**	–
	(62)	54

22. DEFERRED TAXATION (Cont'd)

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

	Undistributable profits of subsidiaries	Accelerated tax depreciation allowance	Development costs and accrued expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	(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
Charged to profit or loss	–	(65)	–	(65)
Arising on acquisition of subsidiaries (Note 37)	–	(51)	–	(51)
At 31 December 2014	–	(116)	54	(62)

At the end of the reporting period, the Group has temporary differences associated with undistributed earnings of PRC subsidiaries of RMB1,253,694,000 (2013: RMB1,093,871,000). In 2013, deferred tax liabilities has been recognised in respect of undistributed earnings of RMB215,537,000. However, upon the Disposal as detailed in note 9, undistributed earnings of PRC subsidiaries of RMB215,537,000 was reversed in 2013. No deferred tax liability has been recognised for the remaining undistributed earnings of RMB1,253,694,000 (2013: RMB1,093,871,000) 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 RMB108,926,000 (2013: RMB19,559,000) 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 RMB108,926,000 (2013: RMB19,559,000) that will expire within five years from the end of the reporting period.

23. 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.

	2014	2013
	RMB'000	RMB'000
0 - 30 days	**31,946**	22,806
31 - 60 days	**7,147**	5,088
61 - 90 days	**7,117**	10,211
Over 90 days	**4,862**	3,613
	51,072	41,718

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 RMB8,523,000 (2013: RMB9,052,000) 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

	2014	2013
	RMB'000	RMB'000
31 - 60 days	**2,023**	4,969
61 - 90 days	**6,010**	470
Over 90 days	**490**	3,613
Total	**8,523**	9,052

23. TRADE RECEIVABLES (Cont'd)

Movement in the allowance for doubtful debts

	2014 RMB'000	2013 RMB'000
At beginning of year	**3,025**	3,120
Allowances recognised on receivables	**4,509**	2,460
Amount written off as uncollectible	**–**	(156)
Acquired on acquisition of subsidiaries	**139**	–
Eliminated on disposal of subsidiaries	**–**	(2,304)
Exchange differences	**(9)**	(95)
At end of year	**7,664**	3,025

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB7,664,000 (2013: RMB3,025,000) of which the debtors have been in dispute with the Group.

24. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2014 RMB'000	2013 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**10,605**	–
Less: progress billings	**(3,777)**	–
	6,828	–
Analysed for reporting process as:		
Amounts due from contract customers	**7,252**	–
Amounts due to contract customers	**(424)**	–
	6,828	–

25. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

Included in other receivables, prepayments and deposits, amount of approximately RMB61,190,000 (2013: RMB60,969,000) 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 completion date of the Disposal and is reclassified as current asset at the end of the year ended 31 December 2014. The Group does not hold any collateral over this balance.

Included in other receivables, prepayments and deposits, amount of approximately RMB50,404,000 as at 31 December 2014 was paid to an agent to repurchase the Company's shares from the market (2013: Nil). Subsequent to the end of the year ended 31 December 2014, 4,700,000 shares of the Company were repurchased from the market at an aggregate consideration of RMB50,404,000 in January 2015.

26. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of related company	**Terms**	**Balance at 31 December 2014 RMB'000**	Balance at 31 December 2013 RMB'000	**Maximum amount outstanding during the year 2014 RMB'000**	Maximum amount outstanding during the year 2013 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	**2,414**	2,860
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	**3,041**	4,667
		1,704	4,564		

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 2014.

27. AMOUNTS DUE FROM ASSOCIATES

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

28. HELD-FOR-TRADING INVESTMENTS

	2014	2013
	RMB'000	RMB'000
Equity securities listed in the USA	**49,267**	20,735
Unlisted overseas bond	**162,317**	—
	211,584	20,735

The fair value of the listed equity securities is based on their current bid prices in active markets. The fair value of unlisted overseas bond is determined by reference to price provided by the financial institution.

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 3.7% (2013: 0.001% to 3.5%) per annum.

In the current year, pledged bank deposit represents deposit pledged to bank for issue of a standby documentary credit to secure bank borrowing granted to the Group as mentioned in note 32. In 2013, the pledged bank deposit represented deposit pledged to bank to secure the bank borrowing. Deposit is denominated in USD (2013: USD) which carries interest at 2.675% per annum (2013: 3.07%).

Included in pledged bank deposit, bank deposits, 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:

	2014	2013
	RMB'000	RMB'000
HKD	**121,192**	59,763
USD	**966,370**	2,929,344
EURO	**880**	4,817

30. TRADE AND OTHER PAYABLES

	2014 RMB'000	2013 RMB'000
Trade payables	**8,638**	6,050
Accrual staff costs	**86,769**	70,214
Receipt in advance	**20,348**	20,065
Other tax payables (Note)	**5,714**	—
Other payables and accruals	**87,745**	56,508
	209,214	152,837

Note:

On 28 December 2011, 91 Limited introduced a 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. Upon the Disposal on 1 October 2013 as described in note 9, the eligible participants would be entitled to the merger consideration of USD13.168 per share and the special dividend of USD0.371 per share of 91 Limited in cash, which were both received by the Group on behalf of the eligible participants. As at 31 December 2014, an amount of approximately RMB5.7 million of withholding PRC personal income tax calculated at the applicable tax rate and other surcharges was withheld by the Group.

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

	2014 RMB'000	2013 RMB'000
0 - 90 days	**5,875**	2,576
91 - 180 days	**2,096**	3,121
181 - 365 days	**158**	61
Over 365 days	**509**	292
	8,638	6,050

31. AMOUNT DUE TO A RELATED COMPANY/AN ASSOCIATE

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

32. SECURED BANK BORROWING

In the current year, the Group obtained new bank borrowing amounting to RMB236,805,000. The secured bank borrowing is denominated in USD, carries interest rate of London Inter-Bank Offer Rate ("LIBOR") plus 0.8% per annum and is repayable on 7 December 2015. The borrowing is secured by the standby documentary credit of the same amount which is denominated in USD.

The secured bank borrowing as at 31 December 2013, which was denominated in Australian dollar ("AUD") at interest rate of 3.84% per annum, was fully repaid on 5 September 2014. The borrowing was secured by the pledged bank deposit which was denominated in USD 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 a 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 2013, the major terms of foreign currency forward contract for sale of USD were as follows:

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

On 5 September 2014, the foreign currency forward contract has matured and the net gain of approximately RMB6,817,000 is recognised in the profit or loss during the year ended 31 December 2014 (2013: loss of RMB5,481,000).

34. OTHER PAYABLES

Other payables represent the consideration received on behalf of the eligible participants of the share award scheme upon the disposal of 91 Limited as described in note 9. As at 31 December 2014, an amount of approximately RMB2,385,000, which is repayable within twelve months after the end of the reporting period in accordance with the deferred payment agreement, is included in other payables as current liabilities. The remaining balance of approximately RMB1,283,000, which is repayable on 31 January 2016 in accordance with the deferred payment agreement, is included as non-current liabilities.

35. SHARE CAPITAL

	Number of shares	Nominal value	
		USD	RMB'000
Authorised:			
Ordinary shares of USD0.01 each			
At 1 January 2013, 31 December 2013 and 31 December 2014	1,000,000,000	10,000,000	75,771
Issued and fully paid:			
Ordinary shares of USD0.01 each			
At 1 January 2013	505,313,523	5,053,135	37,532
Shares issued upon exercise of share options	8,981,688	89,817	554
Repurchase and cancellation of shares	(5,685,500)	(56,855)	(422)
At 31 December 2013	508,609,711	5,086,097	37,664
Shares issued upon exercise of share options (Note i)	3,257,847	32,579	201
Repurchase and cancellation of shares (Note ii)	(14,632,500)	(146,325)	(1,084)
Shares issued upon acquisition of subsidiaries (Note iii)	2,626,204	26,262	162
At 31 December 2014	499,861,262	4,998,613	36,943

Notes:

(i) During the year ended 31 December 2014, 3,257,847 share options were exercised and as a result of 3,257,847 (2013: 8,981,688) ordinary shares were issued. Approximately RMB201,000 (2013: RMB554,000) and RMB18,083,000 (2013: RMB49,234,000) were recorded as share capital and share premium, respectively.

(ii) During the year ended 31 December 2014, the Company repurchased 14,632,500 (2013: 5,685,500) of its own shares through purchases on the Stock Exchange. The shares had been cancelled upon being repurchased. The total amount incurred to acquire the shares was approximately RMB153,392,000 (2013: RMB83,020,000).

(iii) During the year ended 31 December 2014, 2,626,204 ordinary shares were issued as consideration for acquisition of Cherrypicks Group as described in note 37 (2013: Nil). Approximately RMB162,000 (2013: Nil) and RMB28,031,000 (2013: Nil) were recorded as share capital and share premium, respectively.

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 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 13,255,487 (31 December 2013: 17,170,989), representing 2.65% (31 December 2013: 3.38%) 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 2014
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	360,000
			1,480,000

Batch 2:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2014
28 April 2011	28 April 2011 - 27 April 2012	28 April 2012 - 27 April 2021	3,267
28 April 2011	28 April 2011 - 27 April 2013	28 April 2013 - 27 April 2021	12,707
28 April 2011	28 April 2011 - 27 April 2014	28 April 2014 - 27 April 2021	321,895
28 April 2011	28 April 2011 - 27 April 2015	28 April 2015 - 27 April 2021	2,374,875
28 April 2011	28 April 2011 - 27 April 2016	28 April 2016 - 27 April 2021	2,849,850
			5,562,594

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 2014
22 July 2011	22 July 2011- 27 April 2012	28 April 2012 - 27 April 2021	28,400
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	2,501
22 July 2011	22 July 2011- 27 April 2014	28 April 2014 - 27 April 2021	656,800
22 July 2011	22 July 2011- 21 July 2014	22 July 2014 - 21 July 2021	117,300
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	71,562
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	85,875
			1,629,838

Batch 4:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2014
23 April 2012	23 April 2012 - 22 April 2013	23 April 2013 - 22 April 2022	8,467
23 April 2012	23 April 2012 - 22 April 2014	23 April 2014 - 22 April 2022	270,375
23 April 2012	23 April 2012 - 22 April 2015	23 April 2015 - 22 April 2022	891,300
23 April 2012	23 April 2012 - 22 April 2016	23 April 2016 - 22 April 2022	364,125
23 April 2012	23 April 2012 - 22 April 2017	23 April 2017 - 22 April 2022	436,950
			1,971,217

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 2014
6 July 2012	6 July 2012 - 5 July 2013	6 July 2013 - 5 July 2022	50
6 July 2012	6 July 2012 - 5 July 2014	6 July 2014 - 5 July 2022	18,501
6 July 2012	6 July 2012 - 5 July 2015	6 July 2015 - 5 July 2022	121,250
6 July 2012	6 July 2012 - 5 July 2016	6 July 2016 - 5 July 2022	151,562
6 July 2012	6 July 2012 - 5 July 2017	6 July 2017 - 5 July 2022	181,875
			473,238

Batch 6:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2014
12 September 2012	12 September 2012 - 11 September 2013	12 September 2013 - 11 September 2022	4,200
12 September 2012	12 September 2012 - 11 September 2014	12 September 2014 - 11 September 2022	6,300
12 September 2012	12 September 2012 - 11 September 2015	12 September 2015 - 11 September 2022	11,400
12 September 2012	12 September 2012 - 11 September 2016	12 September 2016 - 11 September 2022	14,250
12 September 2012	12 September 2012 - 11 September 2017	12 September 2017 - 11 September 2022	17,100
			53,250

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 2014
16 January 2013	16 January 2013 - 15 January 2014	16 January 2014 - 15 January 2023	47,050
16 January 2013	16 January 2013 - 15 January 2015	16 January 2015 - 15 January 2023	88,050
16 January 2013	16 January 2013 - 15 January 2016	16 January 2016 - 15 January 2023	117,400
16 January 2013	16 January 2013 - 15 January 2017	16 January 2017 - 15 January 2023	146,750
16 January 2013	16 January 2013 - 15 January 2018	16 January 2018 - 15 January 2023	176,100
			575,350

Batch 8:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2014
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

Batch 9:

Date of grant	Vesting period	Exercisable period	Outstanding at 31 December 2014
25 April 2014	25 April 2014 – 31 December 2014	1 January 2015 – 24 April 2024	139,000
25 April 2014	25 April 2014 – 31 December 2015	1 January 2016 – 24 April 2024	139,000
25 April 2014	25 April 2014 – 31 December 2016	1 January 2017 – 24 April 2024	139,000
25 April 2014	25 April 2014 – 31 December 2017	1 January 2018 – 24 April 2024	139,000
			556,000

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 2014:

Option batch	Exercise price HKD	Outstanding at 1.1.2014	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31.12.2014
Batch 1	4.33	2,200,000	–	(720,000)	–	1,480,000
Batch 2	4.80	8,016,784	–	(1,695,835)	(758,355)	5,562,594
Batch 3	4.60	2,127,463	–	(469,850)	(27,775)	1,629,838
Batch 4	5.74	2,501,667	–	(269,900)	(260,550)	1,971,217
Batch 5	6.53	588,075	–	(79,962)	(34,875)	473,238
Batch 6	7.20	83,000	–	(2,250)	(27,500)	53,250
Batch 7	11.16	700,000	–	(20,050)	(104,600)	575,350
Batch 8	15.72	954,000	–	–	–	954,000
Batch 9	14.66	–	556,000	–	–	556,000
		17,170,989	556,000	(3,257,847)	(1,213,655)	13,255,487
Exercisable at the end of the year 2014						3,258,913
Weighted average exercise price		HKD5.79				HKD6.41

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 1.1.2013	Granted during year	Exercised during year	Forfeited during year	Outstanding at 31.12.2013
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 fair value of the options granted on 25 April 2014 was approximately RMB3,225,000. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Closing price of the Company's shares on grant date	HKD14.66
Exercise price	HKD14.66
Risk-free interest rate	1.848 - 1.957%
Expected option life	7.67 - 8.42 years
Expected volatility	56.31%
Expected dividend yield	2.729%

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.

The Group recognised the total expense of approximately RMB7,068,000 for the year ended 31 December 2014 (2013: RMB10,162,000) 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 staff 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 RMB484,000 for the year ended 31 December 2014 (2013: RMB186,000) 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.

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

(ii) Share award scheme by the Company

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

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

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

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

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

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

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

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

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

The current Performance Conditions proposed by the Committee is that shares will only be vested to the employees 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 RMB3,166,000 for the year ended 31 December 2014 (2013: RMB8,211,000) in relation to share awards.

Movements in the share awards granted during the year ended 31 December 2014 are as follows:

Name of category of participant	Date of grant	Outstanding at 1.1.2014	Granted during year	Awards vested during year	Outstanding at 31.12.2014
Directors	31 December 2012	472,848	–	(118,212)	354,636
Other employees	31 December 2012	796,755	–	(199,188)	597,567
		1,269,603	–	(317,400)	952,203

Among the Award granted on 31 December 2012, 317,397 share awards vested on 9 February 2013, 317,400 share awards vested 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)

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

Pursuant to the announcement of the Company dated 28 December 2011, the former 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 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.

No share was granted during the current year under 91 Share Award Scheme (31 December 2013: 49,675).

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

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

Fair value of the 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.

No expenses was recognised for the year ended 31 December 2014 (2013: RMB70,748,000) 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 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 were 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 RMB14,175,000 for the year ended 31 December 2014 (2013: RMB51,160,000) 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 RMB1,286,000 for the year ended 31 December 2014 (2013: RMB715,000) in relation to these shares awarded.

1,528,625 shares awarded were released on 9 January 2013 and 1,528,625 shares awarded were released on 1 January 2014. 3,057,250 shares to be awarded to those selected participants will be released in 2015 and 2016 totalling RMB6,170,000.

37. ACQUISITION OF SUBSIDIARIES

On 3 June 2014, the Group entered into an agreement with an independent third party to acquire 100% equity interests of Cherrypicks Group at a consideration of USD26,051,000 (equivalent to RMB160,211,000). The consideration was partly satisfied by cash and partly satisfied by the allotment and issue of 2,626,204 new shares of the Company credited as fully paid up at an issue price of HKD13.3653 (the "Consideration Shares"). The Consideration Shares were allotted and issued pursuant to the general mandate to allot and issue shares representing 20% of the issued share capital of the Company as at 23 May 2014 granted to the directors by the shareholders at the annual general meeting of the Company on 23 May 2014. The transaction was completed on 21 July 2014. Cherrypicks is a leading enterprise in mobile technology and mobile marketing in the Asia Pacific region.

On 29 May 2014, the Group entered into an agreement with an independent third party to acquire 70% equity interests of Catch Investments Limited and its subsidiary, Just Me Co., Limited (collectively referred to as the "Catch Group") at a consideration of RMB5,250,000. The transaction was completed on 20 June 2014. The Catch Group is engaged in the provision of artiste management services.

On 31 December 2013, the Group entered into an agreement with an independent third party to acquire 51% equity interests of 恒康（福建）醫療信息服務有限公司 ("恒康（福建）醫療") at nil consideration. The transaction was completed on 23 June 2014. 恒康（福建）醫療 is principally engaged in the provision of medical information enquires.

37. ACQUISITION OF SUBSIDIARIES (Cont'd)

Assets acquired and liabilities recognised at the date of acquisitions are as follows:

	RMB'000
Non-current assets	
Property, plant and equipment	893
Intangible assets	144,607
Current assets	
Trade receivables	4,522
Other receivables, prepayments and deposits	1,698
Amounts due from related companies	6,267
Bank balances and cash	6,022
Current liabilities	
Trade and other payables	(7,315)
Deferred income	(68)
Amount due to ultimate shareholder	(6,170)
Amounts due to related companies	(5,710)
Borrowings	(3,378)
Income tax payable	(3,218)
Non-current liability	
Deferred tax liabilities	(51)
Net assets acquired	138,099

Non-controlling interests

The non-controlling interests (30%) in the Catch Group and (49%) in 恒康（福建）醫療 recognised at the acquisition date were measured by reference to the proportionate share of fair value of identifiable assets and liabilities of the Catch Group and 恒康（福建）醫療 at the dates of acquisition.

37. ACQUISITION OF SUBSIDIARIES (Cont'd)

Goodwill arising on acquisition of Cherrypicks Group

	RMB'000
Consideration transferred	160,211
Less: fair value of identifiable net assets acquired	(132,732)
Goodwill arising on acquisition	27,479

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Gain on bargain purchase on acquisition of the Catch Group and 恒康（福建）醫療

	RMB'000
Consideration paid in cash	5,250
Add: non-controlling interests	58
Less: fair value of identifiable net assets acquired	(5,367)
	(59)

Net cash outflow on acquisition of subsidiaries

	RMB'000
Consideration paid in cash	116,035
Less: cash and cash equivalent balances acquired	(6,022)
Add: shareholder's loan	6,170
	116,183

37. ACQUISITION OF SUBSIDIARIES (Cont'd)

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2014 is the profit of approximately RMB17,761,000 attributable to the additional business generated by the above subsidiaries. Revenue for the year ended 31 December 2014 includes RMB46,704,000 generated from the above subsidiaries.

Had the acquisition been completed on 1 January 2014, total group revenue for the year ended 31 December 2014 would have been RMB982 million, and profit for year ended 31 December 2014 would have been RMB161 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

38. OTHER COMPREHENSIVE EXPENSE

	2014 **RMB'000**	2013 RMB'000
Other comprehensive expense includes:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**40**	1,130
Income tax relating to items that may be reclassified subsequently	**–**	–
Other comprehensive expense, net of income tax	**40**	1,130

39. SUMMARY OF STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 RMB'000	2013 RMB'000
Assets and liabilities		
Investments in subsidiaries	**167,871**	167,871
Other receivables and prepayment	**50,821**	357
Amounts due from subsidiaries	**1,297,356**	1,112,731
Bank balances and cash	**36,403**	42,418
Other payables	**(29,981)**	(31,413)
Amounts due to subsidiaries	**(26,681)**	(1,894)
	1,495,789	1,290,070
Capital and reserves		
Share capital	**36,943**	37,664
Share premium and reserves	**1,458,846**	1,252,406
	1,495,789	1,290,070

Note:

Movement in the reserves:		
1 January	**1,252,406**	1,114,820
Repurchase and cancellation of shares	**(152,308)**	(82,598)
Profit for the year	**469,343**	3,463,283
Recognition of equity-settled share-based payments	**10,718**	18,559
Share issued upon exercise of share options	**12,263**	32,312
Share issued upon acquisition of subsidiaries	**28,031**	–
Dividend	**(161,607)**	(3,293,970)
31 December	**1,458,846**	1,252,406

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 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.

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2014	2013
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,524,371**	4,569,046
Held-for-trading investments	**211,584**	20,735
Available-for-sale investments	**5,000**	5,000
Financial liabilities		
Amortised cost	**424,628**	232,967
Other financial liability	**–**	3,122

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, amounts due from related companies, amounts due from associates, 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 and other financial liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Market risk

(i) Currency risk

The Group operates mainly in the PRC. Most of its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which is RMB. However, the Group also has operations in Hong Kong, the USA and Indonesia and the business transactions conducted there during the year were mainly denominated and settled in HKD, USD and Indonesian Rupiah 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 and secured bank borrowing) at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**199,175**	110,800	**9,749**	47,562
USD	**1,239,989**	3,014,775	**269,378**	14,173
EURO	**880**	4,817	**–**	–
AUD	**889**	15	**–**	104,672
CAD	**1,264**	–	**–**	–

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis

The following table details the Group's sensitivity analysis to a 5% increase and decrease in RMB against HKD, USD, EURO, AUD or CAD. 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 (a decrease)/an increase in post-tax profit 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 post-tax profit.

	2014	2013
	RMB'000	RMB'000
Post-tax profit		
HKD	**(9,194)**	(3,158)
USD	**(48,311)**	(149,234)
EURO	**(37)**	(241)
AUD	**(38)**	4,709
CAD	**(53)**	(55)

A 5% increase and decrease in RMB against HKD, USD, EURO, AUD or CAD 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 the PRC and Hong Kong and loan receivables.

The Group is exposed to fair value interest rate risk in relation to fixed or floating-rate loan receivables (note 20), 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.

41. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(ii) Interest rate risk (Cont'd)

The cash flow interest rate risk relates primarily 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. It is the Group's policy to keep its borrowings at floating-rate of interest so as to minimize the fair value interest rate risk. The cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's USD denominated borrowing.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2013: Nil) increase or decrease in LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2013: Nil) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2014 would decrease/increase by RMB1,184,000 (2013: Nil). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties 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 spreading 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 instrument. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settles 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 instrument is 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 derivative.

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
2014					
Trade and other payables	–	184,641	1,283	185,924	185,924
Amount due to a related company	–	1,891	–	1,891	1,891
Amount due to an associate	–	8	–	8	8
Secured bank borrowing	1.375	239,847	–	239,847	236,805
		426,387	1,283	427,670	424,628
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 settlement	–	3,122	–	3,122	3,122
		238,819	–	238,819	236,089

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 a derivative financial instrument) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis or using prices or rates from observable current market transactions as input.

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

	Fair value as at					
Financial assets/ financial liabilities	**31 December 2014 RMB'000**	31 December 2013 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 investments classified as financial asset	**211,584**	20,735	Level 1	Quoted bid prices in an active market	N/A	N/A
Other financial liability classified as financial liability	**–**	3,122	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

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 HKD1,500 per person per month to the scheme (HKD1,250 from 1 June 2012 to 31 May 2014), whichever is lower, which is matched by employees.

Contributions to the above schemes for the year ended 31 December 2014 made by the Group amounted to approximately RMB34,684,000 (2013: RMB41,648,000).

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

	2014	2013
	RMB'000	RMB'000
Rentals charged by Fuzhou 851	**6,816**	6,816
Service fee at recreation centre paid to Fuzhou 851	**5,000**	6,125
After-sales service fee paid to Fuzhou Tianliang	**9,767**	14,031
Technical service fee paid to Fuzhou Tianliang	**2,093**	2,131
Interest received on loan advanced to key management	**(106)**	(52)
Technical service fee received from Jiangsu BoDe	**–**	(2,840)
Server rental income received from Jiangsu BoDe	**–**	(536)

43. RELATED PARTY TRANSACTIONS (Cont'd)

Included in loan receivables at 31 December 2014 were loans advanced to key management of approximately RMB1,000,000 (31 December 2013: RMB1,000,000). The loans carry fixed interest at the rate of 4.48% (2013: 4.48%) per annum.

During the year ended 31 December 2013, an associate, 廈門易用, had 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 had disposed of the motor vehicles acquired to one of the Ultimately Controlling Shareholders, Mr. Zheng Hui for a cash consideration of RMB681,000, which was the same as the original purchase price.

Compensation of key management personnel

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

	2014	2013
	RMB'000	RMB'000
Salaries, allowances and other short-term employee benefits	**7,391**	3,697
Contribution to retirement benefits schemes	**154**	75
Share-based payments expense	**5,696**	30,566
	13,241	34,338

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

On 28 November 2014, the Group disposed of its entire interest in 福建雅域酒店管理有限公司 ("福建雅域酒店") with consideration of RMB5,000,000. The net assets of 福建雅域酒店 at the date of the disposal were as follows:

	RMB'000
Consideration receivable	
Other receivable	5,000
Analysis of assets and liabilities over which control was lost	
Other receivables, prepayments and deposits	3,200
Bank balances and cash	2,213
Trade and other payables	(511)
Net assets disposed of	4,902
Gain on disposal of a subsidiary	
Consideration receivable	5,000
Net assets disposed of	(4,902)
Gain on disposal	98
Cash outflow arising on disposal	
Bank balances and cash disposed of	(2,213)

44. DISPOSAL OF SUBSIDIARIES (Cont'd)

On 14 August 2013, NetDragon BVI and Baidu entered into S&P Agreement pursuant to which NetDragon BVI had conditionally agreed to sell, and Baidu had 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 25)	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 for the year ended 31 December 2013 is disclosed in note 9.

45. CAPITAL COMMITMENTS

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

	2014 RMB'000	2013 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**439,715**	150,920
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:

	2014 RMB'000	2013 RMB'000
Within one year	31,139	14,944
In the second to fifth years inclusive	70,491	7,990
Over five years	7,850	9,967
	109,480	32,901

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 RMB524,000 (2013: RMB505,000). The property is expected to generate rental yields of 3.3% (2013: 3.2%) 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:

	2014 RMB'000	2013 RMB'000
Within one year	57	313
In the second to fifth years inclusive	52	—
	109	313

47. DETAILS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2014 and 2013 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
			2014	2013	**2014**	2013	
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
Cherrypicks Limited ^ (創奇思有限公司)	Hong Kong	HKD150,000.00	**–**	–	**100**	–	Mobile technology and mobile marketing business
Best Assistant Education Online Limited ("Best Assistant")	Cayman Islands	USD1,300,000.00	**–**	–	**86.15**	100	Investment holding

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 members, all of whom have to be directors of TQ Digital, subsidiary 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 to exercise all their voting rights in NetDragon (Fujian) and NetDragon (Shanghai), 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.

^ Acquired during 2014.

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 the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries 2014	2013
Investment holding	Hong Kong	**13**	7
Provision of support to the Group	the PRC	**24**	13
Provision of support to the Group	Hong Kong	**4**	–
Provision of mobile technology and mobile marketing business to the Group	Indonesia	**1**	–
		42	20

48. EVENTS AFTER THE REPORTING PERIOD

Issue of Series A Preferred Shares by Best Assistant

On 6 January 2015, Best Assistant, an indirect non wholly-owned subsidiary of the Company, entered into a share purchase agreement (the "Series A Agreement") with IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund - A L.P., IDG-Accel China Investors L.P., Vertex Asia Fund Pte. Ltd., Alpha Animation and Culture (Hong Kong) Company Limited, Catchy Holdings Limited, DJM Holding Ltd., Creative Sky International Limited and NetDragon BVI, a direct wholly-owned subsidiary of the Company (the "Series A Investors"). Pursuant to the Series A Agreement, Best Assistant agreed to issue and allot 180,914,513 Series A Preferred Shares to the Series A Investors for a total consideration of USD52.5 million. The directors are in the process of ascertaining the financial impact on this transaction.

Further details are set out in the announcements of the Company dated 6 January 2015 and 13 February 2015.

Repurchase of shares

In January 2015, the Company repurchased a total of 1,870,000 shares on the Stock Exchange, representing approximately 0.37% of the existing issued share capital, at an aggregate consideration of HKD25,415,000.